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27 November 1985

China Report

ECONOMIC AFFAIRS



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27 November 1985

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

ECONOMIC RESPONSIBILITY SYSTEM IN ENTERPRISES SUMMARIZED

Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 6, 5 Jun 85 pp 3-4

[Article by Yuan Baohua [5913 1405 5478], chairman of the China Enterprise Management Association: "Summary of Experience in Perfecting Economic Responsibility System Within Enterprises"]

[Text] Since the CPC Central Committee issued its "Resolution on Economic System Reform," the National Economic Work Conference held by the State Council in February 1985 suggested 10 policy measures to invigorate large and medium-sized enterprises. The resolution and the measures have provided the essential external conditions to invigorate large and medium-sized enterprises, while how to perfect the economic responsibility system further within enterprises and to improve economic results have become extremely important problems.

The forms of the economic responsibility system are now becoming diversified. There have been new developments in its scope and depth, such as the substitution of taxes for profits added to target management contracts, graded and assigned power management contracts which are carried out by small accounting units and contracts focused on achieving strategic targets. The output-related economic responsibility system which is represented by the Capital Iron and Steel Co and which we popularized in the past has provided us with good and valid experience and is still the basic form of the economic responsibility system within enterprises. It breaks down the duties to the state which enterprises should assume, enterprise development strategy and all technical and economic targets layer by layer for all links and posts and every staff member and worker in enterprise production management, forming a situation in which "everyone shoulders exceptionally heavy responsibilities and has targets to achieve."

The CPC Central Committee "Resolution" pointed out that strengthening enterprise vitality, and particularly that of large and medium-sized state-owned enterprises, is the central link of the whole economic system reform focused on the cities. It required the establishment of many forms of the economic responsibility system with contracts as the dominant factor and the conscientious implementation of the basic principles of combining duties and rights, integrating the interests of the state, collectives and individuals and linking staff member and worker income with their work achievements. Establishing

a correct relationship between the state and enterprises will expand enterprise initiative and establishing a correct relationship between staff members and workers and enterprises will ensure the ownership position of workers in enterprises. Handling these two relationships correctly is an important problem which must be solved in order to further perfect the economic responsibility system. They are also the two links which we have stressed the need to master in carrying out the economic responsibility system. The following are current problems. Some comrades still misunderstand the importance of the economic responsibility system. Some responsible departments have still not really given up the authority which should be extended to enterprises, and the problem of their appropriating enterprise economic interests still exists. Some enterprises have stressed keeping profits and giving bonuses, only considered immediate and not long-range interests and only considered the interests of their units and not of the overall situation. Some comrades are still not good at using the external conditions provided by the state, looking inward and arousing fully the enthusiasm of all sides. Thus, we must vigorously improve the understanding of the masses of cadres, staff members and workers on the importance of further perfecting the economic responsibility system, summarize new experience and solve new problems conscientiously and develop and further perfect the economic responsibility system within enterprises. We must now pay particular attention to solving the following problems.

1. We Must Further Clarify for the Masses of Cadres, Staff Members and Workers the Guiding Ideology of Implementing the Economic Responsibility System. Practice has proved that the main reason why certain problems have arisen in the process of carrying out the economic responsibility system is that the principle of integrating the interests of the state, collectives and individuals has not been understood and upheld fully. The reforms which we have carried out have been based on state ownership of the means of production. Our most fundamental guiding ideology in carrying out the economic responsibility system is through building idealistic, ethical, literate and disciplined working class ranks, to rely on and develop the spirit of being the masters among the masses of staff members and workers, improve enterprise quality, raise economic results and realize the great goal of the four modernizations. Thinking that the economic responsibility system is only being carried out in order to give more bonuses to staff members and workers is highly one-sided. The problem which was exposed in the newspapers recently of a large enterprise concealing income and evading tax payments has shown that individual enterprise leaders lack an overall viewpoint. All of our enterprises should take warning. Large enterprises play a decisive role in the national economy and are responsible for taking the lead in observing state policies and decrees, resisting unhealthy tendencies and making more contributions to the state. Comrade Deng Xiaoping has said repeatedly that we must be idealistic and observe discipline. Comrade Hu Yaobang has also pointed out that when carrying out the economic responsibility system, enterprises must improve ideological and political work among staff members and workers and combine the economic responsibility system with a sense of political responsibility among staff members and workers. Comrade Zhao Ziyang has also emphasized repeatedly the need to both invigorate the economy and improve management. Enterprise leaders and factory directors, especially,

must always be soberminded. When perfecting the economic responsibility system, we must consider the overall situation, understand the cardinal principles, observe discipline and the law and stress the long-range development of enterprises and the long-range interests of staff members and workers, enabling enterprises to have both vitality and stamina.

2. We Must Stress the Formulation of Management Strategy for Enterprises.

Management strategy is an enterprise's development directions and goals. Only by improving product quality, realizing constant renewal and replacement of products, stressing personnel development and technical progress and pursuing management modernization and other matters related to enterprise development, making overall plans, forming management development strategy for enterprises and integrating economic responsibility system implementation measures can we ensure the continued and steady development of enterprises. It is understood that the per capita profits retained by some enterprises have now topped 600 yuan but that there is still no money to carry out technological transformation. This is a problem which is quite deserving of attention. Since the factory director responsibility system and the factory director term of office system have been carried out, some factory directors have thought that they must try during their tenure to give more bonuses to and work more for the welfare of staff members and workers or else feel apologetic. If this problem is allowed to develop, we will be unable to succeed and the situation of enterprise equipment being obsolete, technology backward and product and personnel quality poor will be difficult to change. Every factory director must exercise his own policymaking power, formulate economic development strategy suited to the actual conditions of his enterprise, in line with the economic responsibility system, and broken down layer by layer to every department and post, and ensure its realization.

3. We Must Combine Perfecting the Economy Responsibility System with Realizing Enterprise Management Modernization.

Since the 3d Plenum of the 11th CPC Central Committee, we have begun to stress and advocate the use of foreign management experience. The State Economic Commission and the China Enterprise Management Association have held three successive enterprise management modernization forums. These have pointed out the need to actively carry out enterprise management modernization for enterprises which have reorganized and checked qualifications. According to the National Enterprise Management Modernization Forum held recently in Fushun City, the carrying out of modern management during the past few years has been effective and many enterprises have perfected the economic responsibility system, stressed the use of modern management methods and measures, carried out management modernization and stressed the establishment of a strict economic responsibility system. Combining closely the perfecting of the economic responsibility system with the realization of enterprise management modernization will be of major significance in exploring and establishing modern socialist enterprise management with distinct Chinese characteristics.

4. We Must Continue to Master Basic Enterprise Management Work.

Basic work is the heart of enterprise management work but still a weak link in enterprise management. Although some of our enterprises have reorganized and checked qualifications, their basic work is still very imperfect. It should

be seen that the quality of basic enterprise work is a reflection of enterprise quality. We must determine to master basic work. If basic work is imperfect, enterprises will have no basis to carry out contracts or expand authority layer by layer. In January 1985, the National Enterprise Leadership Reorganization Small Group and the State Council's Industrial Leadership Survey Small Group issued jointly a "Notice On Reorganizing and Strengthening Further Basic Industrial Enterprise Management Work." Based on the spirit of the notice, all enterprises should carry out comparative investigations conscientiously and take practical steps to improve basic work in order to adapt to the needs of the economic responsibility system and build enterprise management on a solid and reliable foundation.

12267/12955

CSO: 4006/35

NATIONAL POLICY AND ISSUES

ECONOMICS RESEARCH IN 1984 APPRAISED

Beijing JINGJI RIBAO in Chinese 30 Aug 85 p 3

[Article by Sun Shangqing [1327 1424 323/]: "A Description and Appraisal of Economics Research in 1984"]

[Text] Economic research in China made unprecedented strides in 1984.

The "Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure" passed by the 3d Plenum of the 12th Party Central Committee convened in October has clearly pointed out the correct direction for building socialism with Chinese characteristics and laid a brand new theoretical foundation. Following the basic Marxist principle of proceeding from reality and seeking truth from facts, the "Decision" has scientifically analyzed experiences at experimental points in our socialist economic construction and structural reform, studied and taken into consideration relevant experiences of foreign countries, and absorbed the results of research and discussion of economics during the past few years. In terms of economic theory, the "Decision" constitutes a major breakthrough with respect to the traditional, petrified conventions of economics. With the socialist theory of commodity economy as the breach, there have been put forward in the same connection the theory of the separation of government from enterprises, the theory of interrelationship between planning and the market, the theory of management autonomy in enterprises, and so on. New, scientific expositions were provided in terms of principle for this series of major theoretical questions in economics. This represents a concentration by the Party Central Committee of the wisdom and creativity of the whole party and people of the whole country, and also reflects the swift strides of our theoretical research in economics. For more than 2 months following the promulgation of the "Decision," economics experts held discussions and seminars on various comprehensive questions and special questions, published a great many papers, research reports, survey reports, and the like dealing the questions touched upon by the "Decision." Some of these expounded on insights of study while keeping in line with reality, some provided further theoretical expositions, and some discussed the problems that could appear in the implementation of the "Decision" in our reform and policies that should be adopted to cope with them. The "Decision" has thus brought about a scene of vitality, vigor and prosperity in China's economic circles.

There have been the following major aspects to our economics research during the past year:

1. In accordance with the state's long-range planning in formulating the 7th Five-Year Plan for our national economy and social development and realizing our strategic goal, there has been launched a series of investigation and study for the purpose of coming up with pertinent policies and plans. A considerable amount of fairly important results have been reported to the State Council and concerned leading economic departments for their reference, such as a forecast of our national strength during the 7th Five-Year Plan period, the question of guiding ideology for the 7th Five-Year Plan, a macroeconomic model, the theory and practice of developing our socialist commodity economy, policies to cope with the new technological revolution, China in the year 2000, and so on. It should be pointed out that this large-scale, multidisciplinary and multidepartmental prognostic study, "China in the Year 2000," has not only achieved preliminary results but has also accumulated definite experiences on a series of major comprehensive theoretical as well as practical questions for organizing the construction of our four modernizations.

2. While continuing to explore the strategy for our economic and social development, much research has been initiated concerning strategies for economic development in provinces, cities, economic zones and major river basin areas. These studies have played a positive role in the formulation of economic planning.

3. The research into our economic structure has likewise been more profound than in 1983. It is now more closely linked with the new technological revolution, our opening to the outside world, and the energetic development of our tertiary industries, and places more emphasis on exploring the developmental relationship between these new industries and our traditional industries. Research concerning departmental structure, industry structure and product mix has become deepened both in terms of quantitative proportionate relationships and qualitative functional relationships, and on this basis, it has proceeded to explore the question of formulating policies to deal with macroeconomic and microeconomic structures.

4. Along with the promulgation of the "Decision," research on reforming our economic structure has advanced both in breadth and depth. In planning our structural reform, considerable interest has been stimulated for the study of guidance planning. Research in such structures as public finance, circulation, pricing, money, foreign trade, and wages is now exploring certain new realms, under the guidance of the "Decision." Deeper exploration into strengthening the vitality of our enterprises and into the forms of free association among our enterprises has likewise been advanced.

Furthermore, economic research concerning the special economic zones has made great strides in the year 1984, and research on the economic development zones of the newly opened 14 coastal cities has likewise begun. It should also be mentioned that, with the Chinese-British joint statement and our proposal on "one country, two systems" as the turning point, research into the economies of Hong Kong and Taiwan has likewise made new progress.

Domestic and international exchanges in the study of economics has continued to maintain a vigorous momentum. Academic symposia on various economic problems have played a positive role, enlivened our academic atmosphere, and facilitated the interchange of scholarly ideas. Enthusiastic debates on scholarly issues provided a forum for free academic exchange and for promoting the completion of key economic research projects in the Sixth 5-Year Plan. Some of the symposia were organized by our scientific research departments and institutions of higher learning and some by our economic departments, but an overwhelming majority was organized by scholarly associations or research societies. Theoretical workers and practical workers were thus able to meet together in one place, and the questions they discussed encompassed mainly the following issues: (1) major theoretical questions and practical questions put forward during the construction of the four modernizations; (2) key projects of the Sixth 5-Year Plan; (3) basic theoretical questions of scientific construction.

In the area of international academic exchange, economic subjects still rank first among all subjects in the social sciences and humanities. As for scholarly investigations and visits and participation in academic conferences in 1984, among the 371 persons in 182 groups sent out by the Chinese Academy of Social Sciences and the 443 persons from foreign countries in 187 groups received by it, those concerned with various economics subjects made up about 40 percent.

In 1984, the 3 books in the volume on economics in the Chinese Encyclopedia, namely the book on political economy, the book on the history of economic thought, and the book on departmental economics and special economics, were all essentially completed. Another large-scale book series, "Contemporary China," has published "Reform of China's Economic Structure" this year.

Activities concerning the appraisal of outstanding works in economics were begun in 1984. These were unprecedented. One form has been for the editorial department of a professional economics journal or a comprehensive journal in the social sciences to take charge by appraising and selecting the outstanding works published in its own journal; another form has been for the various publishing houses to serve as sponsors and appraise and select such outstanding books; still another form has been for a foundation (such as the Sun Yefang Foundation for Rewarding Accomplishments in Economic Subjects) to appraise and select outstanding works, including essays and specialized publications. When such appraisals were made, all adopted the approach of listening broadly to the opinions of readers, integrating with appraisals by panels of specialists, with final selections determined through democratic voting by a reviewing committee. Regarding criteria of selection, all gave comprehensive considerations as to both the practical significance and the theoretical significance of the works on hand, with special attention given to middle-aged and young authors; some, however, sought to appraise the works of middle-aged and young authors exclusively. Hence, such appraising activities in 1984 brought about a broad, positive impact on economic circles, encouraging especially the middle-aged and young scholars to endeavor to proceed from reality and creatively explore on the basis of Marxism the new problems arising in the new era of the four modernizations. This has contributed significantly to the healthy development of economics in China.

from practice and in the direction of guiding practice, as well as to the prosperity of economics itself. With 1984 marking the beginning and gaining certain experiences, it is believed that appraisal activities at various levels and through various channels will proceed even further in 1985.

To sum up, 1984 was a year in which economics research in China made pioneering advances on a series of major theoretical questions. This will have an important and profound impact both on the development of our Marxist and socialist political economy and on the building of socialism with Chinese characteristics.

Full text is to appear in the forthcoming "1985 Chinese Economics Yearbook."

9255

CSO: 4006/67

NATIONAL POLICY AND ISSUES

COMMUNICATIONS MINISTRY PROMOTES TWO CIVILIZATIONS

Beijing ZHONGGUO JIAOTONG BAO in Chinese 7 Aug 85 p 1

[Article: "Strengthening Education on Ideals and Discipline, Promoting the Two Civilizations Throughout the Country's Communications System: Communications Ministry Decides To Convene Experience-Exchange Meeting on Building the Two Civilizations"]

[Text] The Ministry of Communications has decided to convene a meeting to exchange experiences in building the two civilizations at the end of this year or beginning of the next.

The purpose of this meeting is to implement the spirit of the talks given by Comrades Deng Xiaoping and Chen Yun on strengthening our education in ideals and discipline and the imperativeness of doing a good job at the same time in the building of our socialist spiritual civilization while engaged right now in the building of a socialist material civilization. The circular issued by the Communications Ministry today states: The 12th Party Congress has put forward the principle of simultaneously building the two civilizations; this is a major issue concerning the success or failure of the cause of our socialist construction. During the past few years, party and government leaders and the vast ranks of the workers and staff at various levels of the communications system, under the uniform leadership and deployment of the local party committees and governments, have conscientiously implemented the spirit of the 12th Party Congress, insisted on grasping the two civilizations at the same time, and thus brought about considerable changes in the spiritual outlook of the vast ranks of the workers and staff and promoted the accomplishment of the various tasks of production and work throughout the communications system. But, during the more recent period, in certain localities and enterprises and among part of the comrades of the communications system, there have also appeared unwholesome trends such as overlooking the building of our spiritual civilization, "looking up to money in doing everything," and forgetting about justice when gains are in sight. It is imperative for us to further stress our adherence to concerning ourselves with both civilizations.

The circular asks the various units to seriously discern the spirit of the talks of Comrades Deng Xiaoping and Chen Yun, further enhance the perception of the importance and urgency of constructing our spiritual civilization by

the vast ranks of our cadres, especially leading cadres, and do a good job in handling the mutual relationship between material civilization and spiritual civilization. Leaders at the various levels are expected to carry out a conscientious inspection and analysis of their respective units' conditions since the beginning of this year concerning the accomplishment of their various tasks of production and work, their various reforms, their education in ideals and discipline and in building up the ranks of the "four have" workers and staff, concerning the development of the five stresses, the four points of beauty, and three loves and the building of civilized units, and concerning the resistance against, and correction of, new unorthodox trends, and so on. In the case of units that achieved results during the building of the two civilizations, they should, by following the principle of "assuring quality and adhering to established standards," develop toward even higher levels on the basis of their original foundation; in the case of units that are relatively backward or have made less progress, they should strengthen their leadership, put forward practical and feasible plans and measures, and improve their situations quickly.

The circular finally says, while helping exchange typical experiences in the building of the two civilizations, the Communications Ministry will at the same time commend at this meeting certain advanced collectives and advanced individuals who have achieved outstanding results during the building of the two civilizations.

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CSO: 4006/67

NATIONAL POLICY AND ISSUES

WATER CONSERVANCY INSPECTION TO BE CONDUCTED

OW291239 Beijing XINHUA Domestic Service in Chinese 1221 GMT 28 Oct 85

[Report by Zhang Minhua]

[Text] Shenyang, 28 Oct (XINHUA)—China will conduct a comprehensive inspection and repair of water conservancy facilities and irrigation works, focusing on dredging of river channels, this winter and next spring, said Yang Zhenhuai, secretary general of the Central Flood-Prevention Headquarters and vice minister of water resources and electric power, at a recently concluded national meeting on flood prevention and river dredging work.

Dredging of river channels has become a serious problem and pressing task in water conservancy and flood-prevention work in China. Yang Zhenhuai pointed out: Because serious floods on a nationwide or regional scale have not occurred in the country during the past few years, some localities have an erroneous idea that their irrigation works are up to standard, thus neglecting the construction of water conservancy facilities, and failing to take good care of irrigation works. A number of river channels and flood plains have had factories, houses, and ports, built along them, piling up trash, or planting trees and crops that obstruct the flow of water. As a result of such artificial obstacles to flood drainage, the annual average water level has become abnormally high in some areas, seriously affecting the smooth progress of economic structural reform and the modernization drive, and threatening the lives and property of the people. What is worse is that a few localities and departments only consider local and immediate interests, and neglect the overall situation, thus making dredging work difficult.

In order to fulfill the Seventh 5-Year Plan, and accomplish the objective of quadrupling the annual industrial and agricultural output value, it is necessary to keep all major rivers free from serious floods. Dredging of river channels is an economical and effective measure for this purpose. Therefore, Yang Zhenhuai urged all provinces, autonomous regions, and municipalities to organize forces to conduct careful inspections this winter and next spring, in order to discover and deal with the current situation and problems in water conservancy facilities and management of

river channels. On the basis of the general inspection, all provinces, autonomous regions, and municipalities should adopt effective measures for dredging river channels within the next 2 or 3 years.

Calling for vigorously dredging river channels, Yang Zhenhuai emphatically pointed out that resolute efforts must be made to remove buildings, trees, and crops obstructing the flow of water, and that whoever sets up the obstacle must dredge the river channel. Leaders at all levels have the responsibility for defining the tasks for each level, and enforcing their accomplishment within a time limit.

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CSO: 4006/232

ECONOMIC PLANNING

FUJIAN'S XIANG NAN ON FUTURE ECONOMIC WORK

OW032350 Fuzhou FUJIAN RIBAO in Chinese 17 Oct 85 p 1

[Excerpts] "Concerning our economic work in the next 2 years, we must scale down capital construction, support construction of key projects, improve economic efficiency, control consumer spending, regulate market prices, and earn more foreign exchanges through the development of the export industry." This statement was made by Comrade Xiang Nan when he outlined Fujian's economic tasks for the coming 2 years at the second enlarged session of the fourth Fujian Provincial CPC Committee.

Comrade Xiang Nan said: The proposal of the CPC Central Committee for the Seventh 5-Year Plan has provided a clear guideline and goals, development speeds, reform steps, and policy measures for the Seventh 5-Year Plan. The plan is divided into two stages: the first stage covering the first 2 years and the second stage the remaining 3 years. The proposal was also very clear regarding the economic work and ways to carry it out in the first 2 years. What are the questions to which we need to pay special attention in implementing the plan in our province?

1. We must persistently give priority to reform. Proceeding from the desire to lay the foundation for a socialist economic structure with Chinese characteristics and with great vigor and vitality, we must firmly and step by step carry out the economic reform. The emphasis is to strengthen and perfect the macroscopic, indirect control system in order to stabilize the economy. We must firmly grasp the central link of urban economic reform and further increase the vitality of the enterprises, especially the large and medium-sized state-run industrial enterprises. Since the adoption of more flexible policies and the delegation of more decision-making power to lower levels, our province has gained some experience in this regard. We must now further revitalize the enterprises from two directions. On the one hand, we must insist on the separation of administration from management, further simplify the administrative procedures, and delegate more power to the enterprises by implementing to the letter the State Council's regulations on enlarging the decision-making power of the enterprises. On the other hand, we must guide the enterprises to fully utilize the decision-making power delegated to them by the state and to establish and perfect the economic responsibility system, strengthen the political-ideological work, and fully arouse the workers' enthusiasm, initiative and creativity.

2. We must firmly control the scale of investment in fixed assets, especially in capital construction.
3. We must make special efforts to raise economic results and product quality and to maintain unity between speed and efficiency.
4. We must ensure a rational increase in consumer spending and restrain the increase within the scope of productivity growth.
5. We must firmly but safely carry out the readjustment of rural production structure.

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CSO: 4006/232

AGGREGATE ECONOMIC DATA

STATISTICAL DATA ISSUED FOR JAN-SEP 1985

HK010601 Beijing JINGJI RIBAO in Chinese 24 Oct 85 p 2

[Report by the State Statistical Bureau: "Chief Statistical Data of Industry, Communications, and Transportation From January to September This Year"]

[Text]

<u>Items</u>	<u>Jan-Sep 1985</u>	<u>Sep 1985</u>	<u>Jan-Sep 1985 Percentage of increase over same period of last year</u>
Gross industrial output value	614.24 billion yuan	70.3 billion yuan	121.1
Light industry	306.03 billion yuan	34.92 billion yuan	123.6
Heavy industry	308.16 billion yuan	35.38 billion yuan	118.7
Bicycles	23,783,800	2,845,700	114.4
Sewing machines	7,236,000	861,400	102.8
Wrist watches	31,167,000	3,739,000	116.5
Television sets	12,013,000	1,423,400	173.4
Radios	12,049,200	1,362,500	67.4
Recorders	9,266,300	1,175,600	194.9
Household Washing machines	6,510,200	757,400	164.0
Cameras	1,281,200	182,000	142.5

<u>Items</u>	<u>Jan-Sep 1985</u>	<u>Sep 1985</u>	<u>Jan-Sep 1985 Percentage of increase over same period of last year</u>
Electric fans	23,929,000	2,320,500	183.6
Household refrigerators	956,900	133,600	295.5
Chemical fibers	681,300 tons	84,200 tons	133.7
Yarn	2,596,500 tons	309,200 tons	107.2
Cloth	10,582,000,000 meters	1,238,000,000 meters	103.5
Of which			
Chemical fabrics	4,596,000,000 meters	509 million meters	105.2
Silk fabrics	1,006,000,000 meters	120 million meters	121.5
Woollen Goods	158,62 million meters	18.4 million meters	125.6
Knitting wool	89,600 tons	10,500 tons	110.6
Sugar	3,062,700 tons	5,800 tons	119.6
Raw salt	10,777,000 tons	867,000 tons	84.0
Cigarettes	16,669,000 cartons	2,206,000 cartons	114.1
Beer	2.4961 million tons	333,600 tons	140.5
Machine-made paper and paperboard	6,205,100 tons	730,400 tons	116.9
Bulbs	1,137,000,000	129 million	110.6
Raw coal	625.8 million tons	70.5 million tons	111.5
Natural gas	9,646,000,000 cubic meters	1,079,000,000 cubic meters	107.3
Generated electricity	300.64 billion kwh	33.18 billion kwh	108.7
Of which hydropower	68.89 billion kwh	8.414 billion kwh	105.7
Pig iron	32,019,000 tons	3,541,000 tons	106.8

<u>Items</u>	<u>Jan-Sep 1985</u>	<u>Sep 1985</u>	<u>Jan-Sep 1985 Percentage of increase over same period of last year</u>
Steel	34,533,000 tons	3,893,000 tons	107.0
Rolled steel	27,601,400 tons	3,133,600 tons	109.7
Coke (Machine-made)	28,896,100 tons	3,314,300 tons	107.4
Sulphuric acid	5,038,600 tons	523,600 tons	80.1
Soda Ash	1,471,100 tons	160,900 tons	105.5
Caustic soda	1,749,500 tons	193,400 tons	105.4
Chemical fertilizers	10,440,100 tons	1,060,100 tons	93.9
Medicine	43,800 tons	5,200 tons	103.5
Farm chemicals	178,100 tons	9,500 tons	69.4
Cement	104,529,000 tons	12,909,000 tons	118.4
Plate glass	40,113,000 standard boxes	4,769,300 standard boxes	117.7
Generating Equipment	3,699,400 kilowatts	768,700 kilowatts	139.6
Metal cutting machine tools	117,200	13,600	119.2
Motor Vehicles	340,900	38,500	152.3
Small tractors	654,800	57,700	130.8
Locomotives	589	67	117.8
Railway Freight Volume	956 million tons	108 million tons	105.3
Freight volume of ships under Ministry of Communications	138 million tons	17 million tons	108.8

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AGGREGATE ECONOMIC DATA

CONSTRUCTION MATERIALS PRODUCTION, SALES TRENDS SPOTLIGHTED

Beijing JINGJI RIBAO in Chinese 10 Oct 85 p 3

[Article: "Current Production and Sales Trends for Construction Materials in China"]

[Text] This reporter has learned from the State Construction Materials Bureau that during the recent period, production and sales trends for construction materials are as follows:

Cement: Scheduled production according to our 1985 plan is 30 million tons. The first half of the year has seen completion of the plan up to 12,623,000 tons; this basically suffices to meet the state's needs in key projects and national defense, but uniform distribution of Portland cement still falls rather short. The main problem is that the transportation question faced by the producer plants is still not solved, which has a definite impact on the completion of the production plan and the submission of products. Secondly, the readjustment of the prices of raw materials for the production of cement as well as of transportation, water supplies, electricity and coal has caused the cost of cement production to rise, whereas the price of Portland cement has been set by the state without any corresponding readjustment. This has adversely affected the production enthusiasm of the producer plants and caused a gap of more than 7 million tons to show up in the investment for capital construction within the state plan. Hence the supplies of Portland cement still fall far short of meeting demand. The contradiction between supply and demand, then, is still quite salient, and, in the case of Portland cement and local cement products of fine quality in particular, the demanded amounts are large but the supplies are lacking. According to reports from the electric power, railway, and communications sectors, their respective gaps in cement supplies this year are 400,000 to 500,000 tons. The market price for cement is about 146 yuan per ton, a relative drop from that of last year. Supplies of lower-grade cement are relatively abundant; the asking prices of the No 425 cement of Jiangxi, Hubei, Hunan and other places fall between 85 and 100 yuan per ton.

Plate glass: The scheduled production according to this year's state plan is 11.56 million standard cases. The first half of the year has seen completion up to 6.347 million standard cases, making up 54.9 percent of the year's total. Supplies belonging to the portion for market adjustment are fairly

abundant, especially as a state of sales stagnation for glass appears to have emerged in many places. In the glass market, the prices for the smaller plates have gradually evened out, with the 3-cm, 2nd-category, 1st-class variety set at about 3 yuan per sq m, and the 5-cm, 1st-class variety set at about 9 yuan per sq m.

Asphalt felt: Scheduled distribution for the whole of 1985 is 13.8 million rolls; resources are similar to those of last year in that they can meet only 43.67 percent of needs within the plan. The main reason for such small production capability is the large plants' "hunger" for raw materials, as asphalt supplies are very short. In the asphalt felt market, the supplies of famous-brand large felt are very short. In the northwestern region in particular, supplies from the smaller plants are fairly abundant in the market, but their quality proves to be rather ordinary; each roll weighs somewhere between 22 and 25 kg.

Dark glass: The supplies imported from Guangdong are rather abundant; there is fierce competition between the sellers and hence their price tends to fall. Sales stagnation has occurred in the case of dark glass imported from Shanghai, with their price falling. The dark glass which was eagerly traded during the first quarter this year has now become stagnant. As for its price, at the beginning of the year the 5-cm-thick variety sold at 80 to 120 yuan per sq m, but it has now fallen to 52 to 62 yuan, with a possible further drop for large quantities. The Belgian, British and Japanese supplies provided in Foshan, Guangzhou and Shantou measuring 5 x 3180 x 2134 cm are priced at 43 to 45 yuan per sq m with supplies turned over locally.

White ceramic tiles: Along with the rise of the standards for architectural ornamentation and interior decoration, demands for white ceramic tiles and color ceramic tiles also have continued to increase. Supplies for the 152 x 152 mm white ceramic tiles are very short; as for their price, the 6-square-inch top grade sells at 0.255 to 0.29 yuan per piece, a slight increase over last year's price.

Fiberglass: There has emerged a scene of competitive buying in the market, as supplies fall far short of demand. The main reason for this is shortage of raw materials, and prices are rising.

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AGGREGATE ECONOMIC DATA

INDUSTRIAL PRODUCTION FOR FIRST 3 QUARTERS OF 1985 PRAISED

Beijing JINGJI RIBAO in Chinese 11 Oct 85 p 1

[Article by Gong Jiao [7895 8032]: "Situation in Industrial and Communications-Transportation Production for First 3 Quarters of This Year Is Most Pleasing; Excessively High Rate of Development Since Third Quarter Has Now Been Reduced Somewhat"]

[Text] "The situation of industrial and communications production is fine in general; it is most pleasing." This was the appraisal by Zhao Weichen [6392 4850 5256], vice chairman the State Economic Commission, at the meeting on economic analysis convened yesterday, concerning the extent of fulfillment of industrial and communications-transportation production quotas during the first 3 quarters of this year.

Zhao Weichen said that during these first 3 quarters, after the exertion by various districts, various departments and various enterprises, our industrial and communications-transportation production has achieved fairly good results. The main manifestation in this regard is that our light and heavy industries have maintained their coordinated development. From January to September, the ratio between light and heavy industries was 49.8:50.2; it is estimated that by the end of the year they will each make up a half, thus becoming quite rational. Energy and raw material industries have grown steadily; from January to September, raw coal, crude oil and power generation increased by 11.5 percent, 10 percent, and 8.7 percent respectively, thus reaching the highest level of the last few years. Communications and transportation have over-fulfilled planned quotas; railway freight and passenger transportation volumes have increased respectively by 5.3 percent and 3.6 percent, and the total volumes of business of water, land and air transportation and posts and telecommunications have likewise experienced considerable growth. Famous-brand, superior and easy-to-sell products have multiplied considerably; both the urban and rural market have been thriving and active.

Economic results have been enhanced; gross industrial output value and realized profits and taxes as well as the state's financial revenues all have grown simultaneously. From January to August, the output value of industrial enterprises in the state's budget increased by 14.9 percent over that of the corresponding period last year, the realized profits and taxes increased by 17

percent, sales revenue increased by 20.7 percent, and the whole nation's financial revenue increased by 29.4 percent.

Zhao Weichen declared, "Since the beginning of this year, after the adoption by the Party Central Committee and the State Council of a series of macroeconomic management measures regarding the question of the rate of our industrial development having been too fast, there has already been gradual reduction, and the situation has made a turn for the better."

Zhao Weichen said that in the first half of this year, the growth of industrial production was rather fast; the margin of increase of the total output value of each month over that of the corresponding period last year has proved to be 22 to 25 percent. From July onwards, it began to decrease slowly. From January to September, the margin of increase in the nation's industrial output value decreased from the first 6 months' 23.1 percent to 21.1 percent; of this, state-owned industries decreased by 1.6 percent, whereas those under collective ownership decreased by 3.8 percent; this illustrates that the series of measures adopted by the Party Central Committee and the State Council had already seen results.

Zhao Weichen pointed out that the main problems found in the industrial and communications-transportation system are, first, the rate of industrial growth has tended to be high, and second, enterprise costs have generally gone up, and those enterprises which have sustained losses and the amount of such losses have likewise increased.

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AGGREGATE ECONOMIC DATA

YUNNAN INDUSTRIAL OUTPUT TOPS 1 BILLION YUAN IN SEPTEMBER

HK301043 Kunming YUNNAN RIBAO in Chinese 13 Oct 85 p 1

[Report by Yang Wangqiong [2799 3769 8825] and Wang Maihong [3076 6701 4767]: "Yunnan's Gross Industrial Output Value for September Exceeds 1.1 Billion Yuan"]

[Text] Industrial production throughout the province increased substantially in September as compared with that in August. The gross industrial output value was 1.146 billion yuan, setting a monthly production record above 1.1 billion yuan. The increase in light industry was fast, 28.2 percent over the previous month.

In September, the volume of products closely related to the livelihood of the people, increased by various extents. Compared with August, cakes (mainly mooncakes) increased by 120 percent; beer by 8.5 percent; refined tea by 8.8 percent; and cigarettes by 9,200 cases. In September, 37,856 tons of flue-cured tobacco was processed, reaching an all time high in monthly production. The production of woolen yarn was 63.6 percent over that in August, woolen goods increased by 21.6 percent, and silk products increased by 9.7 percent. This month, the production of radios will increase by 65 percent as compared with September; household refrigerators by 51.4 percent; and bicycles by 150 percent. The new color television set production line of the Yunnan Television Set Plant was put into operation on 21 September and produced over 2,200 color television sets in only 10 days.

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AGGREGATE ECONOMIC DATA

BRIEFS

JIANGXI INCREASES OUTPUT VALUE--Jiangxi has steadily developed its industrial production and gradually raised its economic efficiency in the course of readjustment and reform during the Sixth 5-Year Plan, achieving increases in both growth rate and efficiency. The 1985 industrial output value of the province is expected to reach 15 billion yuan, 34.8 percent more than the target set in the Sixth 5-Year Plan. During the Sixth 5-Year Plan, Jiangxi's light and heavy industries have developed harmoniously. During the first 4 years, light industry developed at an annual growth rate of 8.9 percent with heavy industry at 8.3 percent, both exceeding the growth rates set in the Sixth 5-Year Plan. [Excerpt] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 30 Oct 85]

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ECONOMIC MANAGEMENT

PRC JOURNAL ON INTEGRATING 'FIRST AND THIRD FRONTS'

HK051235 Beijing JINGJI GUANLI in Chinese No 9 Sep 85, pp 12-15, 53

[Article by Lu Dadong [7627 1129 2639]: "Do a Good Job in Integrating the First and Third Fronts to Speed Up Economic Development -- edited by Ding Jiatiao [0002 1367 4383]

[Text] The CPC Central Committee and the State Council advocated that we should closely integrate the economic development of the coastal regions with the economic development of the interior and effectively solve the related problems between the eastern part and the western part of our country so as to achieve the overall and vigorous development of our national economy and universally touch the people. They also pointed out that organizing discussions between the first and the third fronts (that is the coastal regions and the interior) on economic and technological cooperation is a good method of strengthening this integration. These important directives from the CPC Central Committee and the State Council have shown us the way to correctly treat the relations between the coastal regions and the interior. They also constitute an important topic which must be studied in our country's economic construction.

Important Significance of Integrating the First and the Third Fronts

Doing a good job in integrating the first and third fronts is an important policy made in light of the realities (economic foundation, natural geographic conditions, and the major superior conditions and their restricting factors) of the coastal regions and the interior of our country. It is also a natural progression of economic development after the opening up of the coastal regions. It has an extremely important strategic significance in further improving the geographical distribution of our country's productive forces, strengthening the horizontal economic relations, and speeding up the socialist modernization program.

The coastal regions located on the first front occupy a pivotal position in the entire national economic construction. Being the old industrial base areas of our country, they have achieved new developments after the founding of the republic and their current industrial gross output value accounts for about 60 percent of that of the whole country. Their commodity economy is relatively developed. Their cities such as Shanghai, Tianjin, and

Guangzhou have always served as congregation points for multitudes of merchants, being our country's largest marshalling and distributing centers of commodities as well as important bases for the import and export trade. These regions have good transportation facilities. They can easily exchange news and information. Their scientific and cultural enterprises are relatively developed. They have relatively high technological and business operation and management levels. They have, on the one hand, rich experience in the development of foreign trade and, on the other hand, the networks and means for carrying out economic and technological cooperation with the interior, being virtually our country's pivotal centers for "paving the way for the outside and liaising with the inside." Since the 3d Plenary Session of the 11th CPC Central Committee, the state has enforced in the provinces of Guangdong and Fujian certain "special policies and flexible and adaptable measures" and as well as establishing the four special economic zones of Shenzhen, Zhuhai, Shantou, and Xiamen has successively decided to open to the outside 14 ports along the coast and Hainan Island and also gradually to open the Chang Jiang delta, the Zhujiang delta and the Xiamen-Zhangzhou-Quanzhou delta, thus actively opening to the outside a strip along the coast and creating a new situation in use of foreign capital, introduction and importation of advanced technology, and bringing the superiority of the coastal area into full play. This has achieved notable results in speeding up economic construction, promoting social development and improving the people's standard of living. Nevertheless, development of the economy along the coastal areas has its restrictive factors, these principally being insufficient supply of energy, lack of mining resources, and shortage of raw materials. Hence, in order to do a better job in developing the economy in the coastal areas, it is necessary, on the one hand, to develop economic and technological cooperation with the outside and, on the other hand, to strengthen economic relations with the interior. Only through enforcing radiation from both the interior and the exterior, that is to say, radiation from the "two sides of the fan," is it possible to, first and foremost, develop the coastal areas, into a civilized and affluent region in which there is intercourse between the interior and the exterior, integration of industry and agriculture, and infiltration between the cities and the countryside -- a modern, open, and liberalized kind of region.

The interior which constitutes the third front is the strategic hinterland of the fatherland. It has vast territory, a large population, and rich resources. After the founding of the PRC, particularly since the large-scale construction of the third front beginning from 1965, the state has invested nearly 200 billion yuan in the region, established 2,000 large and medium backbone enterprises and scientific research units, and basically formed an industrial structure which has heavy industry as the main body and a rather full complement of different kinds of industrial departments. In the interior, the ratios occupied by the various industries and enterprises in regard to the country as a whole are: national defence enterprises, 60 percent, large and medium backbone enterprises of the machine-building industry, 37 percent, directly subordinate enterprises of the electronics industry, 60 percent, output of steel plants, 27 percent, output of non ferrous metals factories, over 50 percent, and gross industrial output

value, roughly 25 percent. In this region, the potential hydropower resources amount to 340 million kilowatts, being over 50 percent of the total hydropower resources of the whole country; the amount of coal reserves is about 335 billion tons, being 43 percent of the national total. Deposits of 94 of the 134 known kinds of minerals have been confirmed, of which the reserves of 15 kinds, including iron, vanadium, titanium, nickel, molybdenum, copper, aluminum, lead, zinc, tin, phosphorous, and natural soda respectively amount to 50 to 90 percent of the national total. The region is also rich in agricultural subsidiary and special products such as natural silk, ramie, leather, tangerines, tobacco, wines, natural spices and valuable Chinese herbal medicines. However, because the third front is located inland, where transportation facilities are poor, and information services are poor, the capacity to develop resources is weak, and in certain localities, because the processing techniques are backward and the management and specialization and cooperation levels are low, the display of the superiorities of the interior has been generally restricted. Hence, in order to speed up the development of the economy of the interior, it is necessary, on the one hand, to rely on the adjustment and transformation of the existing industrial enterprises and, on the other hand, to strengthen cooperation with the coastal regions. This is the only way to speed up the pace of our country's modernization program.

Summing up the above, it may be said that both the first front and the third front have their own superiorities and their own insufficiencies. The superiorities of the first front are precisely the insufficiencies of the third front while the superiorities of the third front are precisely the insufficiencies of the first front. In the economic development of the regions on the first front, the greater their radiation capacity to the outside, the more urgent is their need for backing and the more inseparable they are from the inland's cooperation and support. Comrades of Jiangsu Province have said: "If you serve as my backing, I shall serve as your window." What they say was correct. The integration of the regions on the third front with the first front can make up for the defects of poor information services, outdated knowledge and backward management techniques, and can further improve production and technology levels and bring their role into fuller play. For example, Guizhou Province's Zhenhua Electronics Industrial Company went to Shenzhen in Guangdong Province to set up a "window" and succeeded not only in introducing outside technology and renovating its knowhow but also in invigorating a number of enterprises. In January this year, Comrade Zhao Ziyang, addressing a national convention of provincial governors, said: "Following their opening, the coastal areas, backed by the industrial base of the interior and facing the markets abroad, can bring the superiorities of the coastal areas into even better play. Backbone enterprises in the interior, principally the scientific research departments can also go to the coastal areas and set up windows there to collect and exchange information, renovate knowledge, and to accept orders so as to display the role of the industrial base of the interior." Thus it can be seen that the integration of the first front and the third front is a strategic problem in our country's economic development. In regard to this problem, the better we understand it and the earlier it is grasped, the greater will be our initiative.

Integration of the First and Third Fronts

There are many aspects of the economic and technological cooperation between the first and third fronts, but major importance should be attached to the industrial production and construction projects although cooperation and exchange should also be carried out extensively in other sectors such as trade, resources, communications, science and technology, labor services, personnel, information, and tourism. Concretely speaking, there are 10 principal items:

1. Jointly opening up resources, and increasing the production capacity of the ferrous and non ferrous metals industries, and industries producing non-metallic raw materials. For example, it is possible to jointly open up the following: iron and steel in Hebei, Guizhou and Sichuan provinces and Chongqing, aluminum in Henan and Guizhou provinces; nickel, copper, lead, zinc, mirabilite, and asbestos in Sichuan and Hubei provinces; tin, antimony, tungsten, molybdenum in Yunnan, Guangxi, Hunan, and Shaanxi provinces; phosphorous in Yunnan, Guizhou and Hubei provinces; natural soda in Henan Province; iron ores and natural rubber in Guangdong Province and Heinan Island, and sea salt in various places along the coast.

2. Jointly developing coal and coke production. In some provinces on the third front coal resources are relatively plentiful. The Liu panshui coal base in Guizhou Province has coal reserves of over 15 billion tons, 90 percent of which are good for making coke. In Shaanxi Province, the Shenfu coalfield has reserves of over 100 billion tons, but is urgently in need of development. The coal reserves of Henan Province are over 20 billion tons, mostly of good quality. The coalfields have good conditions for coal extraction and the province has fairly good transportation facilities.

3. Jointly turning out products of superior quality and well-known brands. For example; the Shanghai Machine Tool Plant has plans to extend its production of surface grinding machines to the Sichuan Grinding Machine Plant, helping the latter to improve its products so as to pass the quality test and allowing the products to carry the Shanghai brand; the Chengdu Electric Welding Machine Plant has separately assigned the production of the accessories for electric welding machines to four plants in Shanghai and Jiangsu and Zhejiang provinces, with the completed products bearing the well-known Chengdu brand, and so on. Jointly producing superior quality goods of well-known brands has the advantage of increasing production and increasing their export trade, but without any increasing in investment.

4. Jointly producing important technical equipment urgently needed by the state. For example, heavy machinery equipment, heavy-duty motor vehicles, railroad wagons, civilian airplanes, river and ocean shipping, new-type textile machines, integrated circuits and microcomputers, robots, satellite communication and optical fiber communications equipment, and so on. With the first and third fronts cooperating in producing these products, production can be speeded up and the needs of major state construction projects can be met in a better way.

5. Taking primary products to the coastal provinces and towns for intensive processing. For example, certain precision machine tools may be sent to the coast to be equipped with digital control and digital indicators for export; silk woolen cloth, grey cloth and ramie may also be sent to the coast for further processing so as to increase their value for export. Again, for example: the products of the China Electric Welded Rod Plant in Zigong city, Sichuan Province are good quality, but they are poorly packed. Subsequently the plant cooperated with Shenzhen city, established a branch there, changed its packing methods, and expanded the plant's production. As a result, export of the goods increased considerably. The goods have since been well received by foreign traders.

6. Strengthening cooperation and exchange in science, technology, personnel and information. Regions in the first front have good communications, fairly efficient information services and relatively strong in the fields of science and technology whereas among the regions on the third front, the top-notch or sophisticated industries are comparatively centralized and fairly strong in technology. Both sides have achieved many advanced technological and scientific research results and accomplishments and can carry out extensive cooperation and exchange. For example, the nuclear knowledge of Sichuan and Gansu provinces, including their studies, planning, and construction of nuclear power stations and production of nuclear fuels as well as the promotion of application of isotopes and the technologies acquired by Shaanxi, Hubei, Sichuan, Hunan and Guizhou provinces in telemetering and remote sensing in the space industry, their automatic control methods and processing and microelectronic techniques can all be put to use by civilian industries.

7. Cooperation in labor services. The coastal areas, particularly the special economic zones and cities and localities opened to the outside are all actively engaged in development and construction, requiring large numbers of construction workers. Regions on the third front can proceed, in an organized manner, to the coastal areas to cater for and accept contracts for engineering projects. For example, the Huaxi Construction and Engineering Corporation of Sichuan Province has contracted for several construction projects in Shenzhen and achieved fairly good results. Cooperation in this direction should be further explored and extended.

8. Jointly operating communication and transportation enterprises. The major projects include: navigation development on the Chang Jiang and organization of river-sea through transport, building of a highway connecting the south western region and the Beihai area of Guangxi Province; increasing the number of direct passenger trains and direct scheduled flights between ports and cities along the coast and central cities in the interior and generally changing the transport situation between the interior and the coast.

9. Jointly developing the light industry, food industry, and agricultural sideline products processing industries. Regions on the third front produce plentiful farm sideline products and special native products. They can also supply large quantities of raw materials for light industry and the food industry. But their processing techniques are backward and, in this respect,

the coastal regions enjoy supremacy. Hence, there is great potential for them to cooperate with each other. For example, cooperation between the two can well be made in regard to the beef and leather of Nanyang, Hunan province, the white musk-melon, seed melon, lambskin, cowhide and masson bristle of Gansu province, tobacco leaves of Yunnan and Buizhou provinces, the milch goats of Shaanxi Province, and so forth. They can work together to increase the varieties of products, to increase production and to satisfy domestic and foreign market demands.

10. Jointly operating and developing tourism. Following our country's further opening to the outside, tourism will enjoy even great development. The first front has superior geographical conditions and excels in operation and management techniques while in third front regions, there are famous mountains and rivers and the regions abound with cultural relics and ancient sites. If the two sides can work together to develop the resources of tourism and operate the tourist enterprises, the prospects are exceedingly bright.

Form of Economic and Technological Cooperation Between the First and Third Fronts

Comrade Zhao Ziyang mentioned in January this year the various forms of cooperation that can be adopted between China and foreign countries. These same forms are also applicable to cooperation between the first and the third fronts. According to past experiences and the views of various sides, cooperation is principally of the following 10 kinds.

1. Joint investment in plants. This is the common form adopted at present. Shanghai has invested 70 million yuan in Sichuan's Xichang Steel Plant to increase the plant's production capacity. The products are divided on a percentage basis. A certain factory in Chengdu and the aviation and trade center of the Ministry of Aeronautics Industry jointly invested with Shenzhen to form the "Shenzhen-Chengdu Engineering Plastics Corporation." The investment amounted to 1.2 million yuan. The profits are divided among the shareholders on a pro-rate basis. The corporation has achieved good economic results, much to the satisfaction of the parties concerned.

2. Cooperation between coastal areas, inland and abroad. This is a noteworthy form of cooperation. According to the comrades of the Zhuhai Special Zone, in their negotiations with the American Andral Company on cooperation in the large-scale production of integrated circuits, the American side brought up two conditions: 1) the plant must be located at Zhuhai; and 2) the Lishan Company of Shaanxi Province must be the party to furnish the necessary technology, indicating that without these two conditions they would not be interested in the joint investment. It is quite clear that the American side were favorably impressed by Zhuhai's geographical location and the Lishan Company's technical strength. Cooperation of this kind helps to display the superiorities of each party and serves to absorb advanced technology and funds from abroad.

3. Cooperation in production and coordination in making accessories and in assembling. After the opening to the outside of the coastal regions, rapid progress has been made in the industries engaged in the assembly and installation of household electrical machines such as television sets and refrigerators but the production capacity of the essential machine parts for assembling has been weak. On the other hand, the regions on the third front enjoy supremacy in the production of electronic essential parts. Thus, cooperation by both sides in assembling and making complete products can achieve savings in foreign exchange for the state and at the same time can promote mutual development. Xiamen's cooperation with a Chengdu plant in producing colored video recorders and with a Guizhou plant to jointly produce machine cores for recorders and Shenzhen's cooperation with the Zhenhua Electronics Industrial Company to jointly produce the B-type ultrasonic diagnosis equipment were all this type of cooperation.

4. Compensatory trade. A certain plant in Sichuan Province decided to shift to another production line and indicated its intention to build and install equipment with a production capacity of 300,000 tons of synthetic ammonia and 520,000 tons of urea. Jiangsu Province responded with an offer to invest and to accept chemical fertilizer in compensation. Yunnan Province desired to develop its yellow phosphorous deposits, asking the opposite side of the cooperation to furnish the capital funds or technological equipment and itself undertaking to furnish yellow phosphorous as compensation or alternately tin, timber, and coal in combination as compensation.

5. Processing of materials supplied by one side. This method has been generally adopted by certain enterprises of the Ministry of Electronics Industry, Ministry of Aeronautics Industry and Ministry of Astronautics Industry in their cooperation with plants in the coastal areas. Thus, Guangzhou planned to enter into cooperation with a certain plant in Chengdu. The plan called for Guangzhou to provide wolfram powder to be processed by the Chengdu plant for export. Similarly, the Wuxi Boiler Plant planned to provide drawing charts and materials and use the turning-pressure technology and equipment used in armament production at a military base in Sichuan Province to do the processing work on boiler bodies.

6. Jointly duplicating and reproducing imported foreign equipment. Two plants of the Ministry of Aeronautics industry, located in Xian, have cooperated with relevant enterprises along the coast to absorb and digest the techniques of a new-type textile machine imported from abroad and have succeeded in making a technological breakthrough, successfully turning out an air-flow spinning machine and an arrow-shaft weaving machine. Comrades in Fujian Province are planning to cooperate with plants in third front regions to jointly digest and reproduce the 10 production lines imported from abroad for making sheeting for decoration uses, aluminum alloy materials, and so forth. This will provide the country with advanced technological equipment and reduce redundant imports from abroad.

7. Joint operation using technology as participating shares. Thus, Guangzhou City and Chongqing City have entered into negotiations on a project whereby the Chongqing Mini-Electrical Machine Plant of the Ministry of Electronics Industry would provide the technological materials and

technicians and Guangzhou City would supply the plant site and the major portion of funds to jointly establish a mini-electrical machine plant, producing a series of products and accessories for making electrical machines for household use. Third front regions have also expressed the hope that the coastal regions would send technicians and adopt the method of using technology as participating shares to help the development of the light, textile, and food industries. Both the first and the third fronts have many colleges, universities and specialized institutions of learning and are strong in the fields of teaching and scientific research. They should duly organize their forces to strengthen the relations with production and scientific research units and develop cooperation in the economic and technological sectors and in the training of personnel.

8. Joint export of products. The Shanghai Machine Tool Plant has joined the Ginchuan Machine Tool Plant of Shaanxi Province, the Wuhan Machine Tool Plant of Hubei Province, the Wuxi Machine Tool Plant of Jiangsu Province and the Hangzhou Machine Tool Plant of Zhejiang Province to form the "Changiang Grinding Machine Jointly-operated Company," making use of the different types of grinding machines produced by the different plants to form a series of products for joint export to foreign markets.

9. Mutually setting up display windows and offices. The provinces, municipalities, and autonomous regions should organize, in a unified manner, the establishment and stationing of these windows and offices similar to the Ministry of Aeronautics Industry and the Ministry of Electronics Industry establishing the industry-trade science and technology center in Shenzhen and Sichuan Province establishing a liaison office in Shenzhen, and so on. Establishments of this kind can correlate relations, provide information, accept orders for goods, coordinate the rendering of services and play the role of industry and trade stations, information stations, and liaison stations.

10. Mutually putting up product exhibitions to promote marketing. In recent years, in first and third front regions, between certain provinces and municipalities, exhibition and marketing activities have frequently taken place and noticeable results have been achieved. Unfortunately, in general, only consumer goods for daily use are involved. From now on, these activities should be extended to diversified sectors including the means of production.

In addition, between the coastal areas and the interior, we can follow China's practice of forming friendship provinces and states and sister cities and towns with foreign countries and form, following economic and technological cooperation, a number of friendship provinces, cities and enterprises, thus establishing long-term stable and cooperative relations.

Integration of the First and Third Fronts Requires the Solution of Several Problems

In the integration of the first and third fronts, it is necessary to strengthen the leadership organization and create the conditions for

integration in such spheres as the administrative structure, principle of mutual benefit, concrete policies and economic legislation. To do a good job in economic and technological cooperation between the first and third fronts, we must solve the following problems:

1. It is necessary to reform the control and management structure that is not suited to strengthening horizontal economic relations. The "Decision of the CPC Central Committee on Reform of the Economic Structure" pointed out that in the reform of our country's economic structure, it is necessary to vigorously promote horizontal economic relations, promote and facilitate the rational interflow of funds, equipment, technology and talented personnel, develop diversified forms of economic and technological cooperation, jointly establish various kinds of economic enterprises, and promote the rationalization of the economic organization structure and geographical distribution of industry. To extensively develop economic and technological cooperation, it is necessary to break the old pattern of the demarcation of spheres of influence for departments and regions, of each forming its own system, and the enterprise units being "large and all-inclusive" or "small but all-inclusive" and to strengthen horizontal economic relations in accordance with the requirements of specialized cooperation. In integrating the first and third fronts, first we must open to the outside, break the closing up or blockading between the regions, departments and enterprises, open wide the gates, and transform the closed-door type of production and operation. Second, power must be delegated to the lower levels, and the vitality of the enterprises, particularly large and medium enterprises, must be strengthened so that the enterprises can autonomously carry out diversified forms of economic and technological cooperation and fully display their vitality.

2. It is necessary to insist on the principles of "displaying the strong points and avoiding the weak points, mutual benefit, mutual aid, and joint development." The central point is mutual benefit since without it, cooperation cannot last. Regions in both the first and third fronts must create for the opposite side a good environment for investment and cooperation and offer to each other the best conditions possible. In the course of cooperation, we must proceed as usual even though the project can yield only minimal profits, or can only break even, or suffers a small loss in the beginning but has prospects for future gains. Also we should go ahead as usual in case one project happens to lose a little but another project makes a little profit and the general situation is one that breaks even. Only by so doing can a start be made and can cooperation proceed. In undertaking economic and technological cooperation, we must have strategic viewpoints, must take the whole situation into consideration and be graceful in demeanor. By means of cooperation, we can attain the objective of joint development and joint prosperity.

3. It is necessary to solve the relevant problems of policy in regard to the integration of the first and third fronts. The major problems currently encountered are: The problem of the "cage" or scope of the target of investment of self-raised funds, the problem of taxation regulation and adjustment, and the problem of communication and transportation. In regard

to these problems, we must carry out investigation and research work and adopt certain effective measures to promote the integration of the first and third fronts.

4. It is necessary to give legal protection to the integration of the two fronts. Enforcement of economic and technological cooperation which reaches across regions and departments must be protected by law. Before enactment by the state of the new legislation, we may consider the compilation of certain provisional regulations to be enforced after approval by the state.

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ECONOMIC MANAGEMENT

ZHANG JINGFU ADDRESSES QUALITY CONTROL CONGRESS

OW212037 Beijing XINHUA Domestic Service in Chinese 1200 GMT 21 Oct 85

[Report by Huang Fengchu]

[Text] Beijing, 21 Oct (XINHUA)--The Third Asian-Pacific Congress on Quality Control and the first conference of the Asian-Pacific Quality Control Organization opened in Beijing today.

Chinese Premier Zhao Ziyang sent a message of greetings to the congress and the conference which opened in China. In his message, he said: Constant improvement of product quality and the quality of service constitutes an important material foundation and reliable guarantee for developing economies and improving people's livelihood in various countries. It is also a common responsibility and task for the governments of various countries to undertake and accomplish.

The message pointed out: Quality control is a comprehensive branch of science that cuts across geographical regions and scientific boundaries. Several hundred quality control specialists and scholars from the Asian-Pacific region, Europe, and America have gathered together to compare notes on the theoretical research and practical experience which will push forward the social development and the advancement of science and technology, thus playing a positive role in contributing to the prosperity of the economy and the people's happiness in various countries.

State Councillor Zhang Jingfu attended today's congress. In his speech he said: The issue of quality is a question of strategic significance. It will not only affect the survival and development of an enterprise, but also involve the rational development and utilization of natural resources, the prosperity of the state, and the people's happiness. Production quality is the main criterion in judging the level of technology and management of a state or an enterprise. To improve production quality constantly and promote economic development is an issue that must be dealt with at once by the countries in the Asian-Pacific region, particularly the developing countries. It is also their strong desire.

Zhang Jingfu also briefed the participants of the congress on how China raised production quality and reduced consumption of raw material and energy. He said: Compared with those countries with improved quality control, China still lags far behind and needs to do a great deal of work. The convocation of this congress in China provides China's workers in the field of quality control with a fine opportunity to humbly learn from the scientific theories and advanced experience of various countries.

Attending the congress were specialists and scholars from more than 30 nations and regions in Asia, Pacific Coastal Areas, and Europe. During the congress, the participants will present 148 academic papers.

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CSO: 4006/232

YUAN BAOHUA, ZHANG YANNING ON MODERN MANAGEMENT

OW300627 Beijing XINHUA Domestic Service in Chinese 1513 GMT 26 Oct 85

[Report by Ge Daxing]

[Text] Beijing, 26 Oct (XINHUA)--Responsible persons of the State Economic Commission pointed out at the opening ceremony for an enterprise management modernization research class: After an extensive overhaul of enterprises, we should accelerate the modernization of enterprise management step by step in a planned way, and strive to make fairly big improvements in our enterprise management during the Seventh 5-Year Plan period.

During the enterprise overhaul and reform in the last 4 years, the work of modernizing enterprise management has begun. At present, more than 200 enterprises have been selected to experiment on modernization of management. The State Economic Commission is running this research class with the purpose of studying and drafting a program for energetically promoting the modernization of our enterprise management during the Seventh 5-Year Plan period and setting relevant objectives, demands, and steps to guide and improve China's enterprise management. Attending the class are responsible persons of the departments concerned under the State Council, responsible persons of some provincial and city departments in charge of enterprise management, and representatives of 20 or so enterprises which have been selected to experiment on modernization of management.

Yuan Baohua and Zhang Yanning, vice ministers in charge of the State Economic Commission, pointed out in their speeches at the opening ceremony: The extensive overhaul of China's enterprises has entered the finishing stage. To accelerate the modernization of enterprise management has become an urgent task for promoting our economic development and economic structural reform. In order to modernize enterprise management, it is necessary first to modernize management thinking. We must consider the current situation as it is, keep firmly to a socialist orientation, keep the initiative in our own hands, learn from the strong points of others, and strive to create an initial standard with Chinese characteristics for socialist and modern enterprise management during the Seventh 5-Year Plan period. Next, it is necessary to have a reliable working basis. We should attach full importance to gradual perfection of the basic work of enterprise management, such as standardization and metrology. The modernization of enterprise management should also be integrated with technical progress and personnel training of the enterprises and focus on improving quality; lowering consumption; tapping the potential of enterprises; helping China's enterprises, particularly large and medium-sized state-owned industrial enterprises, strengthen their vitality during the Seventh 5-Year-Plan period; and laying a good foundation for our economic development in the final decade of this century.

FINANCE AND BANKING

CREATING MORE OPPORTUNITIES FOR FOREIGN BANKS IN SHANGHAI

Shanghai CAIJING YANJIU [STUDY OF FINANCE AND ECONOMICS] in Chinese No 4, 18 Aug 85 pp 38-41

[Article by Lu Shimin [7120 0013 2404]: "Exploring the Creation of Further Opportunities for Banks Financed by Overseas Chinese and Foreigners in Shanghai"]

[Text] The "Notice" sent out by Shanghai to the Hong Kong and Shanghai Bank and the Maiziali [7796 0502 0448] Bank financed by foreign capital and the East Asia Bank and the Overseas Chinese Bank financed by overseas Chinese concerning the relaxation of restrictions on the scope of their operations in December 1984 has created considerable repercussions at home and abroad. The release of this notice was much welcomed by the four banks. The call made by the offices of the various foreign banks in Shanghai to expand the scope of their operations has also become more vociferous. However, in view of the limited degree of relaxation and the excessive limitations spelled out by the notice, it is still difficult to make full use of the banks financed by overseas Chinese and foreigners to develop modernization construction projects in Shanghai in a vigorous manner.

As the largest key city performing a variety of functions in China, Shanghai should capitalize on the open door policy to play its role as a hub for facilitating the exchange of economic relations with foreign countries and to become a base for attracting foreign businessmen, for importing technologies and for promoting exports to earn foreign exchange. In line with the notice, the scope of operations of the banks financed by overseas Chinese and foreigners should be further expanded in order to attract more foreign banks to establish offices in Shanghai. It is the purpose of this article to present certain issues for further probing.

History Will Not Repeat

Prior to the liberation, Shanghai was already a major international financial center in the Far East and a place for the establishment of foreign financial organizations. According to 1937 statistics, there were in Shanghai 27 banks financed by foreign capital and over 100 insurance companies and their agencies financed by foreign capital and registered in Shanghai. Having acquired special privileges through the granting of loans to the Kuomintang regime,

these foreign financial institutions proceeded to take a stranglehold on our economic lifeline and to gain control over our currency and financial market. Thus, instead of being financial institutions engaged in ordinary operations, they had in fact become the tools of the imperialists for engaging in economic aggression in China.

Following the liberation and the birth of a new China, all the vestiges of imperialism were swept away and all the foreign financial institutions in Shanghai, which owed their existence to special political and economic privileges, were no longer able to exist. In the early period of the liberation, there were in Shanghai a total of 11 banks established with foreign capital. By 1956, only the Hong Kong and Shanghai Bank and the Majiali Bank remained.

The open door policy was adopted by our government following the 3d Plenum of the 11th CPC Central Committee. The foreign currency operations of the four banks financed by overseas Chinese and foreigners have increased 92 percent compared to 1937. These banks, having abandoned the negative wait-and-see attitude of the past, have sought to expand and develop. The decision made by the 3d Plenum of the 12th CPC Central Committee to reform the economic system and the "Notice" issued in December 1984 have opened up for them a bright future for the expansion of their operations and made them see the pressing need for opening up further to the outside world.

Some people worry that the further relaxation of restrictions on the operations of the four banks financed by overseas Chinese and foreigners would inevitably encourage other foreign banks to keep pouring in, thus making it difficult for us to exercise adequate control. Such concern is, in fact, uncalled for. First, ours is a powerful sovereign nation. Foreign banks cannot possibly take control over our economic lifeline and our financial market as they did in the semicolonial and semifeudal China of the past. Second, the concerned departments in our nation have gained considerable experience during the past 30-odd years in exercising control over banks financed by overseas Chinese and foreigners and acquired a set of effective management methods. Having adopted the open door policy, we can also take a page from the methods used by various countries in the world for the management of banks financed by foreign capital to exercise more effective control over them. Third, as a bank specially entrusted with foreign currency operations, the Bank of China has basically monopolized the external financial operations in the nation, so that banks financed by overseas Chinese and foreigners can only expand their operations by upgrading their efficiency and improving their services in engaging in normal and legitimate financial operations. By no stretch of the imagination can they take over the position of leadership and control of the Bank of China in foreign currency operations in our nation. In short, there is no possibility of history repeating itself. The further relaxation of restrictions over banks financed by overseas Chinese and foreigners cannot possibly turn Shanghai again into an "adventurer's paradise."

The Need To Import and Utilize Foreign Capital

The view is held by some that since the purpose of relaxing restrictions on banks financed by overseas Chinese and foreigners is to make use of their

funds, we can just as well invite foreign enterprises to invest directly in our country without relaxing restrictions, that we can also avail ourselves of foreign capital through the representatives of foreign banks or by contracting loans from foreign countries, so that the relaxation of restrictions on banks financed by overseas Chinese and foreigners would not be necessary. This point of view remains to be substantiated.

First, there is a wide gap between the amount of foreign capital available and the amount needed for our modernization construction projects. In view of the close relationship between banks financed by foreign capital and banks financed by international capital, the relaxation of restrictions on banks financed by foreigners in Shanghai would serve to encourage foreign banks to import large amounts of foreign funds to develop their operations, to reduce the pressure put on our banks to make available the necessary exchange funds and to make it possible for us to use the funds supplied by foreign banks to develop the construction projects in our nation.

Second, most of the banks financed by foreign capital that are already in operation in Shanghai or that are about to submit their applications possess abundant funds and are international in character. They have many clients with wide connections. By setting up branches in Shanghai, they can serve as the vanguard for investigating investment opportunities, collecting the necessary information and creating favorable financial conditions for attracting foreign capital. Thus, they would encourage their clients to invest in China and create favorable conditions for the implementation of our expanded open door policy.

Furthermore, although we can encourage foreign enterprises to engage in direct investment in Shanghai, foreign businessmen cannot depend entirely on their own financial resources to set up enterprises. The Bank of China would still have to extend to "three capital" enterprises [foreign capital, Hong Kong and Macao capital, and overseas Chinese capital] medium and long-term foreign currency loans. By relaxing restrictions on banks financed by overseas Chinese and foreigners, it will be possible to bring a satisfactory solution to a series of problems and to accelerate the importation of foreign capital.

Finally, the further relaxation of restrictions on banks financed by overseas Chinese and foreigners would serve greatly to improve the effectiveness of utilizing foreign currency funds. According to statistics, the ratio between the amount of foreign currency receipts derived from export operations of the banks financed by overseas Chinese and foreigners and the total amount of exports from Shanghai has risen from 7.28 percent in 1970 to 11.09 percent between 1979 and 1983. The rate of increase in the amount of foreign exchange derived from export operations of the foreign banks is also much faster than our own export operations. As we all know, the banks financed by foreign capital that have already been established or that are about to apply for permission to operate in Shanghai are transnational banks with numerous international branches. The further relaxation of restrictions on such banks would enable them to develop their advantageous position to the full and make it possible for us to make better use of foreign currency funds and to speed up their turnover rate.

In short, a further relaxation of restrictions on banks financed by overseas Chinese and foreigners cannot but speed up the importation of foreign capital and make it possible for us to more effectively utilize foreign capital.

Advantages of Competition

Some fear that the further relaxation of restrictions on banks financed by overseas Chinese and foreigners would inevitably give rise to heated competition in a variety of operations in our foreign currency financial field, that foreign banks, with higher standards of operation and more ways to compete, would exert greater pressure on our foreign currency banks and pose a considerable threat to the development of our financial institutions. This concern is understandable. It is well known, however, that competition provides a powerful impetus to economic development in a commodity economy society. Although competition from the operations of banks financed by foreign capital exerts an added pressure on our banks, it can also serve as an impetus for us to improve our own operations. In order to enable our banks to catch up with new economic developments in the world and to modernize and internationalize our banking operations, it is necessary for us to learn through competition from the experiences of foreign banks in the use of modern operational and management methods and to continue to speed up the reform of our own. Although competition has its advantages and disadvantages, the advantages outweigh the disadvantages. History shows that it was through intense competition with foreign banks that our own national banks came to be developed. The new socialist China has even less reason to fear competition from foreign banks. Unless we are prepared to brave the storm and to face the world, it would be difficult for our socialist banks to develop significantly in the modern international financial market.

Furthermore, competition exerts a pressure not only on our own banks, but on banks financed by foreign capital as well. The further relaxation of restrictions on banks financed by overseas Chinese and foreigners would also result in intense competition among themselves. That would help instead of hinder the development of our financial institutions, because such competition would enable us to make more effective use of our foreign currency funds, to learn from their experience in the management of operations and to compel the banks financed by overseas Chinese and foreigners to render better service to our modernization economic construction projects.

In view of the limited degree of relaxation of restrictions at the present time, the banks financed by overseas Chinese and foreigners are not in a position to compete with our banks. The Bank of China, as a matter of fact, experiences little pressure from competition. As stipulated by the "Notice," "the rate of interest for foreign currency deposits is to be paid according to the standard set by the Bank of China and calculated according to the different kinds of deposits and the length of the terms." That provision makes it impossible for banks financed by foreign capital to compete with the Bank of China in the solicitation of deposits. Since the banks financed by foreign capital are not permitted to engage in renminbi [RMB] deposit operations, the "three capital" enterprises would rather deposit their foreign currency funds in the Bank of China rather than in banks financed by foreign capital which

offer the same rate of interest. By depositing their foreign currency funds in the Bank of China, these enterprises will also find it more convenient to apply for local and foreign currency loans, sometimes at a favorable rate of interest. Furthermore, although it is stipulated in the "Notice" that banks financed by overseas Chinese and foreigners are to be permitted to extend foreign currency loans to various organizations in Shanghai, they are not permitted, as has been mentioned above, to engage in RMB operations and are subject to certain restrictions in regard to the interest rate. This has made it difficult for them to attract foreign currency deposits in Shanghai. That being the case, they have to obtain their loan funds from abroad, although the rate of interest for deposits and loans in the international financial market is much higher than ours. If loans are extended at the rate of interest prevailing in the international financial market, nobody in China would apply for such loans, and if loans are extended at the interest rate prevailing domestically, such banks would stand to suffer heavy losses. Unless restrictions are relaxed to a proper extent, it would be difficult to encourage banks financed by overseas Chinese and foreigners to operate in Shanghai.

In short, competition is not something to be feared. On the contrary, in order to encourage banks financed by overseas Chinese and foreigners to develop their operations vigorously and to promote the reform and development of our financial operations, we must go a step further in relaxing restrictions and in gradually creating a favorable environment for fair competition among the financial institutions.

Unity of Opposites Between Relaxation and Control

Concern has been expressed by some people that, with the further relaxation of restrictions on the operations of banks financed by overseas Chinese and foreigners, the scope of operations of foreign banks would inevitably expand as time goes on, that our finances and commodity prices would be affected by the international financial upheavals in the West and that it would be difficult to control such illegal operations as smuggling and fraudulent operations in foreign currencies. An analysis of the problem in depth would indicate that with the further relaxation of restrictions on banks financed by overseas Chinese and foreigners and our entry into the international financial market on reciprocal terms, fluctuations in the international financial markets in the West would have their effect on China and make it difficult for us to control certain illegal operations. While that may be true, it is also true that we can eliminate such negative factors by exercising more rigid and better control.

The operations of banks which serve as special enterprises for managing currency and credit operations not only affect the interests of many depositors but also the stability of the financial market, commodity prices and even the entire society. Like all industries, banks have always been subjected to the laws of the various governments, which exercise stricter control over foreign banks than their own. While it is absolutely necessary to exercise a certain amount of control over foreign banks which engage in financial operations in any country, an excessive amount of control would discourage them from engaging in banking operations, since it would be

impossible for them to make a reasonable amount of profit or any profit at all. Although such control would protect the interests of a nation's own banks over the short term, it would not promote the economic development of the nation, leave alone make it possible for its economy to catch up with and surpass the pace of international economic development.

As a matter of fact, there should be a unity of opposites between relaxation and control. Insofar as a sovereign nation is concerned, it is the relaxation of restrictions that creates the need for exercising control. If there is no relaxation of restrictions, then no control would be necessary. Our overall policy in regard to banks financed by overseas Chinese and foreigners should be to achieve an organic unity between relaxation and control and to make the promotion of the development of our planned economy our point of departure. On the one hand, we should go a step further in reducing restrictions in order to develop to the full the positive role which can be played by banks financed by overseas Chinese and foreigners in the development of our economy and, on the other, strengthen our control in order to reduce to the minimum the negative factors which hamper its development.

The view is held by some that in order to encourage many banks financed by foreign capital to establish branches in Shanghai, they should be permitted to engage in RMB operations. If that is done, however, our financial operations and commodity prices would inevitably be affected by upheavals in the international financial markets in the West, since our management standard and objective conditions at present would not permit us to relax restrictions to such an extent. Since our economy has only just begun to take off, the most important thing is for us to protect our economic sovereignty and to achieve stability in the financial market and commodity prices. Thus, we cannot, for a considerable period of time, permit foreign banks to engage in RMB operations. It is my opinion that, within the near future, the highest degree of relaxation would be to permit foreign banks to engage only in the RMB operations of the "three capital" enterprises and no others.

In view of the need for the further relaxation of restrictions, some of the management policies and principles applied to banks financed by overseas Chinese and foreigners can no longer meet the needs of the new situation. We must take advantage of our experience in continuing to make readjustments and to amend and supplement the methods and regulations for the management of banks financed by overseas Chinese and foreigners so as to achieve a unity of opposites between relaxation and control.

Suggestion for Further Degree of Relaxation

Regulations for the control of banks set up with foreign capital and of jointly owned banks in the SEZ's were promulgated on 11 April 1985. The situation in Shanghai, however, is different from that in such SEZ's as Shenzhen. The relaxation of restrictions in Shanghai requires further study. It is my opinion that we should come up with a specific program by using the relevant regulations applying to the SEZ's as a point of reference and by taking into consideration the special features of Shanghai. The tentative plan is as follows:

A. The further relaxation of restrictions on banks financed by overseas Chinese and foreigners must be undertaken in two stages. First, restrictions should be further relaxed on the basis of the "Notice" issued in December 1984. The main provisions are: (1) when banks financed by overseas Chinese and foreigners are set up to attract foreign currency deposits in China, they must be permitted a certain flexibility in setting interest rates; (2) they should be permitted to engage directly in import and export trade account settlements and in foreign currency loan operations of state-operated foreign trade companies; (3) they should be exempted from the payment of taxes on interest payments derived from loans extended domestically, while taxes should be levied on the payment of interest on loans extended abroad.

Second, a further step should be taken to relax restrictions when the various conditions are more or less ripe for such action. The general guiding line is that, except for RMB operations of the various units of our domestic enterprises, they should be permitted to engage in the banking operations of the "three capital" enterprises, including RMB and foreign currency operations.

B. Although their operations are similar to those of banks financed by overseas Chinese and foreigners, the banks set up by Chinese financial groups in Hong Kong should not be regarded as banks financed by overseas Chinese and foreigners. The reason is that most of them are Hong Kong branches originally set up by public and private banks in China and are, therefore, an organic part of our financial system. Having been engaged in operations with foreign countries in Hong Kong for over half a century, these banks have generally established relations with the branches of various foreign banks throughout the world. Full use should be made of their international financial operations to promote modernization construction projects in Shanghai. From now on, we should leave no stone unturned to encourage them to resume setting up offices in Shanghai. Except for granting them permission for the time being to engage in RMB deposits of units of state enterprises in Shanghai and in local currency deposits, they should be permitted to engage in all RMB and foreign currency operations so that they may be able to compete with banks set up with overseas Chinese and foreign capital.

C. To enable them to compete with banks set up with overseas Chinese and foreign capital in their financial operations, the branch bank of the Bank of China in Shanghai and the Shanghai Investment Trust Co should be given a larger measure of autonomy in their operations. The various specialized banks should also be permitted to engage in foreign currency operations.

D. Following the further relaxation of restrictions on banks set up with overseas Chinese and foreign capital, Shanghai should direct its attention toward improving its basic facilities, rendering better service and exempting offshore operations from the payment of all taxes in order to encourage more foreign financial institutions to engage in operations in Shanghai. With the increase in the number of foreign financial institutions and in the amount of incoming and outgoing funds, a financial market extending beyond Shanghai will eventually come into being and a foundation will finally be established for Shanghai to develop and to resume its position as an international financial center.

FINANCE AND BANKING

HEIBEI COMMERCIAL BANK'S POLICY ON CREDIT

Shijiazhuang HEBEI RIBAO in Chinese 19 Sep 85 p 3

[Interview: "Responsible Person of Provincial Industrial and Commercial Bank Answers Questions by Staff Reporter on Current Policy on Credit"]

[Text] This year is the first in the reform of our urban economic structure. As a pivotal department in the national economy, how does a bank go about assuring the realization of the year's credit loan plan, and assuring the smooth progress in the reform of our economic structure? This reporter paid a visit to the responsible person of the provincial Industrial and Commercial Bank to discuss this question.

Question: Last year, funds used for loans tended to be excessive; what is the situation this year?

Answer: In the 4th quarter last year, too many funds were used in our province for issuing loans, which had a detrimental effect upon our economic development. This year, our province's Industrial and Commercial Bank system seeks conscientiously to implement the spirit of the State Council on controlling the issuance of loans and currency, to observe the principle of "macroeconomic control and microeconomic invigoration," to actively recover irrational loans, energetically organize deposits, expand the sources of capital for credit loans, and exercise strict control over the issuance of improper loans. Through more than 7 months of work, we have achieved rather good results. However, in our urban economic life, such problems as capital shortage, materials shortage, energy shortage, and transportation capacity shortage, etc, are still quite serious. In addition, the enterprises' pace of production tends to be high; the various aspects of the national economy remain rather tensely stretched. After price reform, commerce has assumed the task of replenishing stocks and accumulating capital. To correctly solve these contradictions and problems, and ensure the reform of our economic structure as well as the steady development of our economy, are the two great tasks of our Industrial and Commercial Bank.

Q: What is the current situation regarding the funds that the Industrial and Commercial Bank can still provide?

A: This year, we have implemented dual control in the management of our credit planning: control over the amount of shortage in our loans on the one hand and over the scale of such loans on the other hand. From January through July, problems in two aspects still exist: one is the advance increase in various loans, making a relative decrease in funds needed for arrangements in the high season of the last 5 months; the other is the decrease in deposits from the enterprises, directly affecting the transfer of funds. This makes it hard to realize even the scale of loans which already fell short of meeting the existing needs.

Q: In order to resolve the contradictions between the supply of and demand for capital, what measures should be adopted during the next several months? What new requirements are there in our credit loan policy?

A: This can be summarized in 3 words: tap, deposit, and control. Tap means to tap enterprise potential in order to accelerate capital circulation. The way to deal with the current capital shortage is to tap the existing potential and strategically focus our work on three aspects: one is to help the enterprises reduce their use of finished products. During the first half of this year, the growth of capital for industrial products was equivalent to the growth for the entire previous year. Tapping this part of our potential can serve to enliven nearly 100 million yuan of capital. The second is to recover loans made to enterprises that have closed up. Since 1982, 40 million yuan have not yet been recovered from such enterprises. The third is to strengthen capital transfer within the bank, making such transfer flexible so as to solve the problem of one enterprise having a surplus while another has a deficit.

Deposit means to energetically absorb deposits and further expand the sources of our credit loans.

Control means to strictly control the increase in improper loans. We must firmly stop making additional loans to enterprises that continue to manufacture products without assured sales outlets for them; no loans should be extended to enterprises that have suffered losses or that nominally have made a profit but in reality suffered a loss; to all those enterprises which rush to buy, hoard, or resell important means of production and commodities in great demand, no loans should be extended, and even loans already extended should be recovered within a fixed period of time. With respect to fees that should be, but have not yet been, levied against the enterprises during the year, to gains or losses in their inventories, as well as losses from the depreciation of supplies, efforts must be made to handle them within a time limit; if they are not so handled, new loans shall be withheld and, correspondingly, old loans shall be recovered.

Strict control over improper loans is designed to ensure the reform of our economic structure and ensure economic development. During the next few months, we must do everything possible to support the reasonable capital requirement of production and circulation in the high season. We must do our utmost to provide support for funds required for purchasing agricultural and sideline products, for the state's key construction projects, for easy-to-sell products that entail plenty of enhanced production and recovered currency, and for energy and communications-transportation enterprises.

FINANCE AND BANKING

HANDSOME TAX REVENUE FROM RURAL ENTERPRISES SPOTLIGHTED

Hangzhou ZHEJIANG RIBAO in Chinese 30 Sep 85 p 1

[Article by Zhong Shanshan [6988 ? ?]: "Taxes Paid by the Province's Township and Town Enterprises Exceed 800 million Yuan"]

[Text] Zhejiang's township and town enterprises have been actively paying taxes to the state so as to make a contribution to the four modernizations. From January to August this year, the province's township and town enterprises have altogether paid 822,545,000 yuan in taxes, an increase of 289,693,000 yuan over the corresponding period last year. Of this, township and town village collective enterprises paid 712,850,000 yuan, and increase of 51.6 percent; joint-household enterprises paid 16,120,000 yuan; and individual enterprises paid 93,575,000 yuan, an increase of 101.4 percent. Tax money paid by these enterprises during the first 8 months this year makes up 22.4 percent of the province's total tax revenue.

In places where township and town enterprises have been developing rather rapidly, tax money paid in by them has become an important pillar of local finance. From January to August, the total tax revenue of Shaoxing County was 110,610,000 yuan; of this the township and town enterprises paid 69,660,000 yuan, making up 62.98 percent of the total tax money; tax money paid by these enterprises in Xiaoshan County already reached 52,520,000 yuan, making up 43.53 percent of the county's total taxes.

The main reason why the tax revenue situation in Zhejiang has been rather good this year is that, under conditions of macroeconomic control, expanded reproduction predicated upon extension has been turned into reproduction predicated upon intensification, emphasis has been placed on tapping potential and innovation within the enterprises, and economic results have been enhanced. Meanwhile, many places perfected their financial system following rectification, closed loopholes, and strengthened the resolve of the enterprises to take the initiative to pay their taxes. Apart from all this, sources of revenue have been enhanced because the vast ranks of the peasants enthusiastically went to the cities to run factories and businesses.

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CSO: 4006/133

FINANCE AND BANKING

AGRICULTURAL BANK TO OPERATE RURAL INSURANCE BUSINESSES

Beijing NONGCUN JINRONG [RURAL FINANCE] in Chinese No 16, 16 Aug 85 pp 16-17

[Article by Xin Xian [6580 6343]: "More Fully Exercise the Agricultural Bank's Role in Promoting the Rural Insurance Industry"]

[Text] Insurance enterprises are the product of the development of the commodity economy, and development of the insurance industry in turn promotes further development of the commodity economy. In human society, accidental natural calamities and other calamities are hard to avoid. In carrying out production activities in agriculture in particular, the possibility of suffering occasioned by natural calamities is considerable. When the scales of production and exchange both expand and the commodity economy develops to a given extent, once irresistible calamities are encountered, temporarily irrevocable losses would be brought to the production managers. With insurance enterprises in operation, then, with production managers paying a minor financial charge in preparation for the unforeseen, they would be able, after suffering such calamities, to receive needed compensation in time in order to restore their normal life and production management. Today, science and technology are becoming more and more advanced; new realms of production operations continue to emerge. Because of the economic backing provided by the insurance enterprises, production managers have the courage to invest in the expansion of their undertakings on the one hand, while banks have the courage to grant them credit loans on the other. This enables expansion and application of the new sciences and technologies, thereby promoting continued development of the commodity economy.

Since the 3d Plenum of the 11th Party Central Committee, a series of structural economic reforms has been carried out in the countryside, the output-related contractual responsibility system has been put into general practice, and various specialty households and township and town enterprises have experienced considerable development. The scale of rural commodity production and circulation has become larger and larger, science and technology in modern agriculture have become more and more respected and accepted for application, and the funds rural enterprises and farming households are prepared to invest for the development of the commodity economy have likewise become more and more abundant. Insurance enterprises are needed in the countryside to guard against losses that might result from unforeseen calamities and assure normal production operations.

In response, the head offices of the People's Insurance Co and Agricultural Bank have in their joint circular of 1982 decided to commission the Agricultural Bank and Credit Cooperative to operate rural insurance enterprises on their behalf. During the past 3 years, agricultural banks and credit cooperatives in the various localities have at different points already launched efforts to provide insurance for enterprise assets, for automobiles, tractors and vessels (including insurance for the liabilities of uninsured third parties), insurance for planting and breeding enterprises, insurance against soil-drying fires, insurance for the safety of construction workers, property insurance for farming households, as well as various kinds of temporary insurance. Insurance coverages have gradually expanded, and insurance premiums likewise have increased. For example, the revenues from rural insurance premiums in 1984 in Jingsu amounted to 41 million yuan, a 2.15-fold increase over 1982, making up 35 percent of the province's total revenue from both urban and rural insurance premiums. The rural insurance premium revenue of the province's Changshu County now makes up 70 percent of its total revenue from both urban and rural insurance premiums. As of March 1983, draft animals brought under insurance coverage by farming households in Hubei amounted to 27,000 head; their crops, 17,000 mu. Revenue from family property insurance premiums was 134,000 yuan. All of these represented considerable increases over the previous year.

Since the Agricultural Bank began to handle such rural insurance business, the rural insurance industry has experienced considerable development and achieved definite results. This is mainly reflected in the following:

1. Enterprises and farming households that have placed themselves under insurance coverage no longer feel apprehensive when facing calamities; their losses, when sustained, are compensated in time; this has played an important role in assuring and restoring production and safeguarding the stability of people's lives. For instance, a calamitous hailstorm occurred in Chongqing City on 2 May 1985, causing serious losses in five districts and two counties. Of these areas, 377 households in Toudaohe Township of Jiangjin County had participated in an insurance program for their family properties, and they made up 71 percent of all households in the region. The 96 households that sustained the calamity this time were able, after conscientious adjusting work, to receive repayments totaling 2,896 yuan; they were thus able to quickly rebuild their homes and resume production. Farming householder Zhou Kaiyang paid a premium of only 2 yuan, but he received a repayment of 600 yuan. Insured households that were subjected to this calamity in 4 other counties obtained repayments totaling 25,419 yuan. The masses generally reflected: "If we not participated in the insurance program, how could we have withstood the calamity this time!" There were 414 farming households in Huangqiao Township in Jiangsu's Wu County which in 1984 contracted out 4,887 mu of waterfields and participated in an insurance program for fishery production, with the gross insurance value for each mu appraised at 1,000 yuan, and a premium of 7 yuan collected for it. When the fish fry they raised died of disease, they received a compensation of 170,000 yuan, which greatly relieved the insured farming households of their losses.

2. Because there are insurance enterprises serving as the reliable back-up resource for township and town enterprises and farming households and also

supplying the security safeguard for the credit loan capital of the banks, the launching and development of new production projects were therefore given their needed lift. For instance, the adoption of various techniques for scientific planting and breeding, the processing and production of various agricultural and sideline products, especially fresh, nutritious food products, and the development of communications and transportation specialty households, etc, have all provided society with abundant commodities and the masses with conveniences.

3. Capital has been accumulated for the state. It has been 3 short years since the Agricultural Bank began to serve as an agent in handling the rural insurance industry, yet the development has been so fast that the collection of insurance premiums has been increasing year after year. In 1984 those areas which had reaped a revenue of insurance premiums of more than 10 million yuan already included Jiangsu, Shandong, Liaoning and other provinces. From this, it can be seen that the rural insurance industry represents an important force for accumulating capital for the state.

Although the Agricultural Bank in its capacity as agent for the rural insurance industry has achieved the aforesaid results, it has also suffered definite limitations and has not fully adapted to the demands of the increasing development of the rural commodity economy. This has been manifested mainly in the following:

1. Because of the complexities of the adjustment process, claimants do not always receive their compensation in time. Serving as an agent in handling such insurance business, the Agricultural Bank in most cases generally does not directly do the adjusting work; after a calamity strikes, reports must be submitted to the county insurance company for inspection and determination, which often drags on and on. In particular, when widespread natural calamities such as storm, hail, flood, and waterlogging take place, it is necessary to quickly investigate the calamities, calculate the damages, and make repayments in time so that the stricken people can soon rebuild their homes and restore their production. But when too many processes intervene in the matter of examination and investigation, this can hardly be achieved.

2. Work on calamity prevention and management is hard to implement. To strengthen calamity prevention and management and reduce or avoid losses resulting from calamities is all very necessary for stabilizing the insured people's production and life as well as for reducing the insurers' repayment rates. But these tasks are difficult to perform insofar as the Agricultural Banks pay attention primarily to providing insurance and not to calamity prevention and management or preventive measures, and because organs of the people's insurance companies are usually located at the county seat, thus reducing the possibility of conducting inspections in the countryside.

3. It is hard to adapt to local situations in promptly and flexibly providing new kinds of insurance. The Agricultural Bank plays the role of an agent that can only report on calamities but cannot determine new kinds of insurance. This is the responsibility of the people's insurance companies, making it hard to satisfy the various needs of the vast ranks of farming households.

4. The assignment for an agent does not require any specific tasks and hence can hardly mobilize the enthusiasm of the assigned bank. The people's insurance companies have adopted the approach of "utilizing many channels, and assigning many agents"; they can entrust the agency to the Agricultural Bank or assign it to other units. This way, the assigned banks often stay put, unwilling to exert themselves in actively deploying their operations.

The "Ten Policies on Further Invigorating the Rural Economy" of the CPC Central Committee and State Council for 1985 points out: We must "actively develop the rural insurance industry." In order to better respond to the needs of rural enterprises and farming households in accelerating the development of the commodity economy, and in order to more fully exercise the role of the agricultural banks in launching the rural insurance industry, we should improve management of the rural insurance business by instituting self-management by these banks in place of their acting merely as agents. Some advantages to this approach include:

1. Basic-level organs of the Agricultural Bank are spread throughout the countryside; agricultural and financial workers are numerous, so they can launch various kinds of insurance business at their respective locations and thereby reduce business fees and expenses, reduce insurance premiums, and facilitate the further development of the rural insurance industry.

2. The Agricultural Bank has a contingent of cadres familiar with the rural insurance business and who have accumulated definite business experience; it also has a healthy accounting system which can improve the quality of its services and thereby effectively do a good job in running the rural insurance enterprises.

3. The Agricultural Bank has established a credit relationship with the rural enterprises and farming households; their links with them are close and they are familiar with their situations and therefore are in a favorable position for launching propaganda work and insurance-providing operations as well as for organically linking the insurance business with the credit loan business. Thus they are able both to safeguard against property losses of the rural enterprises and farming households and to assure the security of the loans, thus reaping mutually reinforcing results.

4. The revenue from insurance premiums has been increasing year after year; when it is used as a steady source for the Agricultural Bank to raise funds for lending, it strengthens the capital base supporting the development of the rural commodity economy.

According to the spirit of the "Provisional Regulations for Management of Insurance Enterprises" promulgated by the State Council, the Agricultural Bank may indeed take advantage of its strengths and manage its own insurance businesses. If it is permitted to organize rural insurance companies and actively launch their work, that would bring into even fuller play its role in operating rural insurance enterprises, propel these enterprises to advance in depth and breadth, better serve the vast ranks of the agricultural enterprises and farming households, and make new contributions to the realization of agricultural modernization.

FINANCE AND BANKING

ZHEJIANG PROVINCIAL AGRICULTURAL BANK TO ISSUE BONDS

Hangzhou ZHEJIANG RIBAO in Chinese 14 Sep 85 p 1

[Article by Zhu Xiaoyi [2612 1321 5030], Jiang Wenqing [5592 2429 3237], and Hu Zhiquan [5170 1807 2938]: "To Address the Problem of Capital Shortage Among Township and Town Enterprises, the Provincial Agricultural Bank Is Going To Issue Monetary Bonds Totaling 150 Million Yuan"]

[Text] The provincial Agricultural Bank, upon approval by higher authorities, is going to issue throughout the province monetary bonds totaling 150 million yuan for the purpose of supporting certain projects of township and town enterprises which have achieved good economic results and which can, with slight infusions of further investment, be immediately built and put into operation, so as to remove such worries and difficulties for the township and town enterprises.

During the past few years, Zhejiang's township and town enterprises have been developing healthily, and their situation is quite fine. But because their pace of development was too fast, especially because the increase of their fixed assets was too great, capital shortages have resulted, and some even used up the current capital necessary for normal production. According to a survey by the provincial Agricultural Bank concerning capital for projects under construction in the 2,080 township and town enterprises in Zhejiang's 66 counties, there are 866 whose products enjoy good sales and whose raw materials are well supplied, energy resources secured, production operations create no pollution, and construction steps are at least 90-percent complete. These enterprises need investments totalling 410 million yuan, with 280 million already invested and 130 million pending.

In order to help the township and town enterprises resolve this urgent problem of capital shortage, the Agricultural Bank has sought to raise funds by issuing monetary bonds so as to make special loans. Recipients of such loans are expected to open accounts at the Agricultural Bank; collective township and town enterprises which have already established a relationship with the bank by taking out such loans, and township and town enterprises supported by credit loan cooperatives may also apply for special loans.

The interest rate for such special loans is set at 12 to 14 percent per year. The duration for such loans is classified into two kinds, current capital and

fixed capital; the current capital loan is usually set at half a year but not longer than 1 year; that for a fixed capital loan is set usually for 1 year, but not longer than 2 years.

In order to transform a portion of consumed capital into productive capital, these monetary bonds are issued to individuals. Their par values range from 20 yuan to 50 yuan and 100 yuan. With the time limit set at 1 year, the annual interest rate is 9 percent; both principal and interest are to be paid when the time is up. They cannot be cashed ahead of time, nor will interest be calculated beyond the limit.

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FINANCE AND BANKING

SOME ISSUES IN PRICE REFORM DISCUSSED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 6, 5 Jun 85 pp 21-23, 25

[Article by Shi Xiulin [2457 0208 7207]: "We Must Have a Proper Understanding of Price Reform"]

[Text] The Chinese economy has taken on a new look of continuity and stability and is developing in a coordinated way. To ensure the continuous success of the city-oriented restructuring of the economic system, to consolidate and perpetuate the country's excellent economic situation, the State Council has decided to make major moves in wage and price reforms this year. Wage and price reforms constitute an important step in paving the way for future reform and are essential to guaranteeing the steady, sustained growth of the national economy. As these two reforms, particularly price reforms, affect everyone's personal interests, they have become the focus of public attention and the topic of many a public discussion. In this article, I propose to put forward my personal opinions on a number of points pertaining to the understanding of price reform and hope that readers will offer their criticisms.

A. Why Price Reform Is an Urgent Issue

This is the first issue we must resolve if we are to have a correct understanding of price reform. Some comrades question why we have to go in for something so risky as price reform at a time when the economy is developing very strongly, production is rising rapidly, the standard of living is improving steadily and things are just starting to get better. Can we not do without price reform?

Certainly it is obvious to all that the economic situation is highly favorable these days, industrial and agricultural production has been developing by leaps and bounds and the people's livelihood has markedly improved. But it is not a deteriorating economy or economic hardships which prompt us to emphasize the absolute inevitability of price reform today. Indeed, we are taking the initiative by grabbing the opportunity presented by an economy on the upswing to tackle price reforms in order to further promote our economy. Moreover, all is not rosy with the current economic situation. Some problems still remain which cannot be ignored, various relationships have not been straightened out, and a positive economic cycle has not been set in motion.

In our attempt to straighten out the various relationships and generate a self-perpetuating positive economic momentum, the first thing we run into is the irrationality of the current price system. As Premier Zhao Ziyang said at the Third Session of the Sixth National People's Congress, "Price reform, in particular, has become the key to further unleashing everybody's initiative, straightening out various economic relationships and generating a positive economic cycle."

To bring about a positive continuity in the national economy within the framework of a planned commodity economy, we must organize social and economic activities in accordance with the principles of a commodity economy and make full use of price even as we uphold the principles of a planned economy. As the currency expression of value, price is a yardstick with which we evaluate the results of various economic activities, a means with which the law of value regulates the broad spectrum of social economic life, and a most important tool available to the state to arbitrate between different social sectors with different interests. In the final analysis, straightening out various economic relationships means readjusting and reconciling the economic interests of various parties. Yet the present system is riddled with confusion: the prices of many commodities reflect neither value nor supply-demand relationships and directly prevent the correct evaluation of an enterprise's managerial and economic results. Specifically, price confusion manifests itself in the following ways:

1. Price inequity between commodities. The fact that certain mineral products and raw materials are underpriced, in particular, has impeded the rationalization of our industrial structure. Within the industrial sector, the depressed prices of mineral products and raw materials contrast with the inflated prices of processed industrial products. Statistically, the price of Chinese coal is 40 percent lower than the theoretical price and 70 percent lower than the international market price. The price of crude oil is 65 percent lower than the theoretical price and 80 percent lower than the international price. Consequently, most coal mines lose money, the mining industry basically cannot accumulate enough capital on its own to finance technological modernization and the development of the nation's primary industries is severely handicapped. In contrast, processed industrial products are overpriced. The wage and profits tax rate, which averages 279 percent nationwide, is as high as 428 percent in the metallurgical industry, 475 percent in the chemical industry, 1,339 percent in the electric power industry and 1,715 percent in the petroleum industry, but is only 29 percent in the coal industry, 140 percent in the building materials industry and 142 percent in the timber industry. Price extremism has caused disparate fortunes between industries, preventing the expansion of those industries making underpriced, low-profit goods which are in short supply and encouraging irrational expansion and duplication in industries making overpriced, high-profit goods of which there is already an oversupply. This situation is not conducive to the rationalization of our industrial structure.

2. The divorce between the procurement and selling prices of major agricultural by-products has imposed a heavy burden on the treasury. In 1983, price subsidies on such non-staple foodstuffs as grains, oil, poultry and eggs alone amounted to 18.6 billion yuan, more than a 3-fold increase over the 1978

subsidies of 4.6 billion yuan. If we include subsidies for other commodities, the estimated total would come to as much as about 40 billion yuan or thereabouts. Price subsidies on such a colossal scale constitute a severe drain on the state coffers and seriously undermine the ability of the state to balance the budget. The fact that purchasing and selling prices bear no relationship to each other also stifles the enthusiasm of the commercial sector, dissuades them from expanding their businesses, impedes the processing and circulation of agricultural products and is extremely unfavorable to the rational readjustment of the agricultural production mix.

3. Because of our failure to make appreciable price differentials between products of the same kind despite qualitative differences, underpricing good products and overpricing shoddy ones, the former is perpetually out of stock since demand always exceeds supply, while the latter suffers from sluggish sales and a glutted market. Many products do not command higher prices even after improvement; in contrast, products of a declining quality retain their old prices. In the process consumers' interests are not served, producers cannot realize the principle, to each according to his work, and people in commerce cannot enter into competition with one another.

4. Since prices and fees in public utilities and other services have rarely been adjusted over the past few decades, they have remained at depressed levels. The upshot is money-losing operations which cannot rely on their own accumulation to finance development and which have become the weakest and most backward link in the national economic chain. If this situation is allowed to continue, it will be detrimental to any effort to rationalize our industrial structure.

We can thus see that the irrationalities in our existing price system work to the disadvantage of the coordinated and healthy growth of our national economy in various ways.

Price reform also determines whether or not the entire restructuring of the economic system will succeed. Central to the restructuring effort is revitalizing our enterprises, which cannot be accomplished without rational prices. Every enterprise is a relatively independent commodity producer. The material interests of an enterprise and its workers are closely related to its balance sheet. And prices are what an enterprise's production, business decision-making and various economic activities revolve around. Distorted prices make it impossible for enterprises to compete at the same starting point and for the state to correctly guide and regulate their production and business direction. The restructuring of the economic system requires that we adopt a planning system which consciously applies the law of value, reduce the scope of command planning, and expand that of guidance planning. To achieve all this, we must resort to such economic tools as rational prices. Moreover, the effectiveness of many reforms we have carried out in recent years, e.g., the substitution of taxes for profits and the responsibility system, is hemmed in to varying degrees by price irrationality. Hence the urgent need to carry out price reform to show that the above reforms really work.

To sum up, to reform our irrational price system has indeed become crucial to straightening out various economic relationships and carrying out more thoroughgoing structural reforms. This point we must fully understand.

B. Why Price Reform Will Not Cause Widespread Price Increases

Some comrades believe that since too much currency was issued last year and some products have risen in price, price reform at this juncture will trigger a general round of price increases.

This worry is justified but not necessary. The so-called general round of price increases occurs when excessive money supply leads to a depreciation in the value of the currency and hence inflation. As long as there is no substantial increase in the money supply and no inflation, prices will not increase across the board. According to relevant data, 8 billion yuan more was pumped into the money supply than what was normally required, most of which can be accounted for by a sharp growth in credit, excessive increases in wages and bonuses, and a swollen budget deficit. This year the State Council has decided to strictly control the unbridled growth of consumption funds, the overall level of credit and the flow of cash into the money supply, and has also imported from abroad more than \$2 billion (8 billion yuan RMB) worth of goods much sought after at home to speed up the withdrawal of money from circulation. Given these strong and effective measures, basic price stability can definitely be maintained. Furthermore, price reform constitutes a structural readjustment in which some prices will be raised while others will be lowered, so there will be no price increases across the board. In its drive for price reform, the CPC Central Committee has decided on a combination of relaxation and regulation and a step-by-step approach, and drew up a detailed reform plan only after meticulous calculations, taking into consideration its current fiscal capacity, the ability of enterprises to absorb price changes and the capability of the masses to live with the increases, and weighing the pros and cons from all perspectives. The goal is to raise the prices of means of production while relying on enterprises themselves to internalize the increased costs, a process in which they will receive state assistance in the form of tax cuts or subsidies. To offset increases in the prices of some commodities, e.g., pork, the government will provide appropriate subsidies to ensure that urban and rural residents will not suffer a drop in real income as a result of price reform. It can thus be seen that although price reform is taking place in the wake of last year's excessive issue of currency and increases in the prices of certain commodities, there is absolutely no way it can set off a round of price increases affecting every commodity. Clearly we must admit that once price controls are relaxed, a small number of agricultural by-products, primarily certain fresh produce, will become more expensive within a certain period, but since higher prices spur production, they will ultimately drive down or stabilize prices. This is the inevitable result of the law of value at work.

C. Why Price Reform Will Not Lower Living Standards

One school of thought holds that since price levels directly affect people's real income, price changes inevitably lower their standard of living. This is a mistaken view. A person's standard of living is determined by two factors:

his real cash income and price levels and changes. His real cash income consists of wages, bonuses, subsidies and various other earnings. Whether or not price changes affect his standard of living essentially depends on whether the increase in his real income can offset price increases or otherwise, and on the amount of consumption funds available to him. As long as consumption funds gradually expand on the basis of rising production, his standard of living will not drop even though prices are rising. As a matter of fact, not only will it not drop, but it may actually go up. This is exactly what has happened in China over the last few years. There have been several rounds of planned price adjustments of a national scope since 1979, resulting in an overall increase in price levels. In 1983, retail prices increased 17.7 percent over 1979 in urban areas and 14.5 percent nationwide. The workers' cost of living index also went up 19.9 percent from 1978 through 1983. Nevertheless, because of higher procurement prices for agricultural products, expanded employment in villages and small towns and wage increases for workers, the income and level of consumption of urban and rural residents have improved substantially. According to sample surveys by the State Statistics Bureau, the average personal income of peasants reached 355 yuan in 1984, up 160 percent over 1978. After allowing for inflation, the net increase was still over 100 percent. Nationwide, income available to urban residents for living expenses averaged 608 yuan per person, up 92.4 percent over 1978, or 60.5 percent discounting inflation. Owing to state price subsidies, pay increases for some workers and the implementation of a bonus system, workers' wages rose 56.5 percent on the average in 1984. This shows that rising prices have not reduced the people's real income.

Now let us look at urban and rural residents' changing consumption levels. During 1978-1983, per-capita consumption increased from 175 yuan to 288 yuan and further rose to 320 yuan in 1984, for a real annual increase of 7.3 percent after inflation is accounted for. Per-capita food consumption rose from 391 jin in 1978 to 460 jin in 1984, edible oils consumption from 3.2 jin to more than 8 jin and pork consumption from 15 jin to 25 jin. The popularization of durable goods has also been very rapid; in 1983, there were 83.2 TV sets for every 100 urban worker households. Savings deposits in both rural and urban areas, too, have registered a substantial growth, from 21.1 billion yuan in late 1978 to 121.5 billion yuan in 1984. The basic reason why price changes over the past few years have not led to a declining standard of living lies exactly in the overall sustained growth in agricultural and industrial production, a bedrock for the improvement of living standards. This proves that as long as price reforms promote production development, we need not worry about a real drop in living standards. This is because price changes can only modify to a certain extent the proportionate distribution relationships between urban and rural residents; they cannot increase or decrease social products.

D. Why Price Reform and Basic Price Stability Are Not Mutually Exclusive

As some comrades see it, since basic price stability is one thing which makes socialism superior, aren't we being inconsistent in going in for price reform which leads to price changes?

Needless to say, basic price stability is vital to both steady economic growth and social stability. Yet basic price stability and price reform are not mutually exclusive because basic price stability refers to the stability of the overall price level. It is a kind of basic stability which obtains when all commodities are considered a single entity and compared to the entity of currency. In fact, given a stable overall price level, the prices of various commodities must be constantly adjusted in accordance with changes in labor productivity and supply-demand relationships. This is only normal. If we freeze prices on a long-term basis by administrative fiat or through the economic power of the state, the development of the commodity economy is bound to be adversely affected. Second, we must not consider it a good thing for prices to remain unchanged for long. Nor should we regard price adjustments as a bad thing. It is an abnormal phenomenon flying in the face of the law of value for prices to stay fixed. Third, basic price stability refers to the stability of the overall price level. But it does not follow that the overall level always stays the same. Because we have inherited from history numerous irrational price ratios and a serious dislocation between price and commodity value, the mechanism for upward price adjustment is stronger than that for downward price adjustment, with the result that the overall price trend to a certain extent will be in an upward direction. But the main thing is to control the average annual growth rate and readjust prices region by region and step by step so that the rate of increase in price levels will not be excessive. Our point of reference should be the fiscal capacity of the state, the ability of enterprises to internalize the increases and the capability of the masses to live with them.

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FINANCE AND BANKING

BRIEFS

FUNDS FOR HYDROPOWER--Fuzhou, 5 Nov (XINHUA)--Fujian Province is trying hard to raise domestic and foreign funds to exploit its abundant hydropower resources. One hydroelectric power station, funded by loans from the World Bank, will be the largest in east China with an installed capacity of 1.4 million kilowatts. Construction on another, which will have an installed capacity of 300,000 kilowatts when completed in 1989, was started last year with a 30 million U.S. dollar loan from the Kuwait fund for Arab economic development. Fujian is also raising funds at home to build power stations. One which was started last month is being cofunded by units at the provincial and county levels and a branch of the Ministry of Water Resources and Electric Power to the tune of 66 million yuan. Three more power stations are planned using pooled funds. Fujian has 11,000 sites available for various sizes of hydropower stations, which can generate 36 billion kwh of electricity annually. Now the province has 8,690 hydropower stations of all sizes, with a total capacity of 1.48 million kilowatts. Shortages of funds has been the major reason for the slow development of Fujian's power industry in the past. /Text/ /Beijing XINHUA in English 1032 GMT 5 Nov 85/

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CSO: 4020/79

MINERAL RESOURCES

BRIEFS

LIAONING DIAMOND DEPOSIT--Beijing, 28 Oct (XINHUA)--China's largest diamond deposit has been discovered near Dalian in Liaoning Province, according to the Ministry of Geology and Mineral Resources today. The deposit, found by the Liaoning Provincial Bureau of Geology and Mineral Resources, contains high-quality diamond. The Ministry gave no further details. /Text/ /Beijing XINHUA in English 0900 GMT 28 Oct 85/

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TIANJIN MAKES IMPROVEMENTS IN INDUSTRIAL PRODUCTION

SK300010 Tianjin City Service in Mandarin 0030 GMT 29 Oct 85

[Text] During the Sixth 5-Year Plan period, the proportions of major economic branches in the municipality have tended to be reasonable.

First, the development of primary and tertiary industries have been accelerated. Of the gross national product, the portion of primary industry was 6.3 percent in 1980 and is expected to reach 7.8 percent in 1985; and the proportion of tertiary industry is expected to rise from 23.7 percent to 24.6 percent.

Second, the proportions of accumulation and consumption have been readjusted. In the first 4 years of the Sixth 5-Year Plan period, the accumulation rate was reduced by 5.9 percent from the Fifth 5-Year Plan period and the rate of consumption funds increased. The people's livelihood has further been improved.

Third, the proportion of the investment in fixed assets has been readjusted, and the updating and upgrading of fixed assets and nonproductive construction have been strengthened.

Fourth, the industrial structure has been readjusted and vigorously development has been made in the production of the product both in short supply and with ready markets. The proportion of the light industry in the total industrial output value has increased. In 1985, the proportion of the light industry in the total industrial output value is expected to reach 55.2 percent, an increase of 1.2 percent over 1980. Among the light industry, the municipality has concentrated on developing 18 trades, including bicycles, electrical equipment for daily use, chemicals for daily use, food, and furniture. The service orientation of the heavy industry has been readjusted. Faster development has been made in the production of some raw materials and in the trades offering technology and equipment to the sectors of the national economy. Greater increases have been registered in the production of plastic products for production use, cement, cement products, vehicles, ships, construction machines, and electronic industrial products for production use. Marked achievements have been made in readjusting the products structure. In 1984 the output value of the products in short supply increased by 91.5 percent over 1982. The output value of the products in short supply in 1984 accounted for 31.2 percent of the municipality's total output value. Simultaneously, the output value of new products and products with new specification, new designs, and new packages has increased. The output value of quality products is expected to account for 30 percent of the output value of all products in 1985.

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INDUSTRY

BAOSHAN'S FIRST MAMMOTH BLAST FURNACE TO BEGIN OPERATION

Beijing GANGTIE [IRON AND STEEL] in Chinese Vol 20 No 8, Aug 85 pp 1-2

[Article: "China's First Mammoth Blast Furnace, the 4063-m³ Baoshan No 1 Unit, To Begin Operation"]

[Text] In his political report at the 3d session of the 6th National People's Congress, Premier Zhao Ziyang announced to the entire world that some of the installations in the first stage of the reconstruction at the Baoshan Iron and Steel Works, a matter of interest to the people of the entire country, had been put into operation, while the rest had entered the comprehensive adjustment and testing stage, so that coking, ironmaking, steelmaking and blooming mill facilities were expected to go into operation this year.

Since work began on the first stage of the Baoshan project on 23 December 1978, as a result of more than 6 years' work by over 60,000 construction workers, all of the major components of the projects have been essentially completed. A raw materials wharf with an annual turnaround capacity of 22 million tons is already in operation. Depots capable of storing 1.85 million tons of main and secondary raw materials and fuels are all in operation. The first coke oven of a coking plant with an annual capacity of 1.7 million tons was fired up on 3 March 1985 and began regular coke production on 23 May. The No 1 sintering machine, with an area of 450 m², capable of producing 4.9 million tons of sintered ore a year, began operation on 26 July. After completion of comprehensive combined trial runs, the hot-blast stoves of the No 1 blast furnace, with a capacity of 3 million tons a year, were lit on 21 June, and lighting of the blast furnace is planned for 15 September. Two 300-ton pure-oxygen top-blown converters, a large blooming mill measuring 1300 mm in diameter by 3100 mm, and six continuous rolling mills built to complement the No 1 blast furnace have already completed no-load combined trial runs. Installation, adjustment and testing are proceeding at high intensity on the pipe rolling mill, capable of producing 500,000 tons a year of seamless steel pipe 140 mm in diameter, and it will go into production once the blast furnace begins operation.

The construction and commissioning of Baoshan's No 1 blast furnace, with a volume of 4063 m³, marks a new leap forward in the technology and equipment standards of China's ironmaking industry. This blast furnace has four iron taps and is designed for a maximum capacity of 10,000 tons of pig iron

a day; its four external hog-blast₂ stoves can furnish air at 1300°C; the maximum top pressure is 2.5 kgf/cm² and the blast oxygen enrichment can be as high as 4 percent. In addition the blast furnace features many new processes, including a belt conveyor for charge feed, adjustable throat, hot-blast moisture-removal, generation of electricity from excess gas pressure, and use of the Lhasa slag flushing technique.

In order to master China's first mammoth blast furnace effectively, Baoshan iron works began intense production preparations in 1979. The production personnel and equipment maintenance personnel specified in the plan have virtually all been acquired. All of the country's major iron and steel enterprises aided the ironworks, sending 142 scientific and technical personnel in all specialties and 215 experienced workers. Angang's ironworks and sinter plant, Shougang's ironworks and sinter plant, Meigang's ironworks and sinter plant, Sugang's sinter plant, Wugang's sinter plant, Magang's sinter plant and Shanggang's No 1 plant took on numerous training tasks for Baoshan ironworks and rigorously trained its first generation of ironmaking personnel.

While conducting effective training in China, Baoshan ironworks also conscientiously sent personnel to Japan for training. Some 121 trainees went to Okita Iron and Steel Works and Kimitsu Iron and Steel Works, where they engaged in arduous study and were rigorously trained, earning high praise from their Japanese instructors. When as a result of rigorous testing the Japanese determined that all of the trainees had satisfied Japanese industrial standards in terms of theoretical knowledge, operating abilities, and safety and management skills, the trainees carried out one phase of the operation and maintenance of Kimitsu's 500-m³ No 4 blast furnace and Okita's 400-m² No 1 sinter plant and raw materials depot, resulting in satisfaction on both sides. When these personnel returned to China they conscientiously gave all plant employees assistance in technology, management, workstyle and discipline and effectively improved the capabilities of the plant's employees.

In order to meet the production requirements of modern mammoth blast furnaces, in accordance with foreign experience Baoshan's raw materials depot, sinter shop and blast furnace shop are centrally directed by the ironworks, and the appropriate management and command structure has been established. Cadres at all levels have been given group-by-group comprehensive modern scientific and technical training in the hope that good management and direction will assure that the No 1 blast furnace will begin operation safely and smoothly and will achieve its rated characteristics as quickly as possible.

In order to operate the mammoth 4063-m³ blast furnace effectively, Baoshan iron works consulted documents supplied by the Japanese and drafted more than 100 technical regulations and job rules, as well as more than 300 equipment spot checking standards, 100 equipment lubrication standards, and 100 equipment maintenance standards. All plant employees are now being organized to study them and follow them in order to assure that once the blast furnace is lit there will be standards governing all work and all operation will be in accordance with management objectives.

The materials storage, sintering and blast furnace units under Baoshan iron works adopted 62 Japanese technical patents and 25 tricks of the trade, and in order to assimilate and master these new techniques the plant's employees studied them painstakingly. At the same time, large amounts of operational guidance documents furnished by the Japanese were translated, plant personnel were organized to study them, and as a result the personnel's technical capabilities were improved rather effectively.

According to state arrangements, most of the ores required by Baoshan's No 1 blast furnace will be imported from abroad, while a small amount will be furnished from the Hainan Island iron mines; all of these materials have already been received. The coal for the sinter plant and other secondary raw materials are all being supplied domestically. The 11,000 tons of refractory materials of various brands and grades that will be consumed each year by the blast furnace have already been arranged for. The lubricants of various types and grades needed for production and equipment maintenance, as well as more than 4,000 other types of consumables, are being obtained as a result of energetic support by the relevant units nationwide.

In order to assure that the Baoshan No 1 blast furnace will go into operation smoothly in September, a Baoshan Production Preparation Oversight Group organized by the Ministry of Metallurgy visited the plant for comprehensive, rigorous inspections in March and May; it approved what had already been achieved, clearly highlighted existing problems, and set deadlines for solving them.

All iron works personnel are now working energetically and with high morale; they have heightened their resolve to make all production preparations in an even more productive, painstaking and conscientious manner, and, along, with all other employees of the Baoshan Iron and Steel Works, to begin effectively the actual operation of China's first 4063-m³ mammoth blast furnace in response to the concern of China's 1 billion people.

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CONSTRUCTION

HAINAN MAKES PROGRESS IN CONSTRUCTION OF KEY PROJECTS

Haikou HAINAN RIBAO in Chinese 14 Aug 85 p 1

[Article by Liu Yongxi [0491 3057 3556] and Huang Chaomou [7806 6389 6180]: "New Progress Has Been Made in 24 Key Construction Projects on Hainan--Six Projects Have Been Completed and Put Into Operation or Partial Operation; Another Eight Are Expected To Be Completed Within This Year; Departments Concerned Call a Meeting on Key Construction Work To Draw Up Plans for Speeding Up Construction"]

[Text] New progress has been made in the construction of 24 key projects set for this year on Hainan. By the end of July, 164 million yuan had been invested in these projects. Six projects carried over from last year have been completed and put into operation or partial operation. These projects are: the production line of the Hainan Yihe cement plant with an annual production capacity of 80,000 tons, the expansion project of the Hainan Qiongsan cigarette factory, the Changjiang sugar mill and the Lin'gao Longli sugar mill with a daily sugarcane extraction capacity of 1,000 tons, the production line of the Haikou tire factory with an annual production capacity of 300,000 sets of tires and the Wenchang Hengshan highway bridge. Another eight projects are expected to be completed within this year.

The key construction projects on Hainan have taken a new course of development since the CPC Central Committee and the State Council issued the decision on accelerating the development and construction of Hainan. Of the key projects in the whole Hainan district in 1983, besides fulfilling the early-stage preparatory work of feasibility studies and initial designing for 10 key projects, an investment of 87.65 million yuan was made in that year and the automatic telephone project in Haikou City proper and 13 new and expanded sugar mills were completed and put into operation in the same year. Further progress was made in 1984 on construction of key projects on Hainan; the number of key projects was increased to 24. During 1984, a total of 357 million yuan was invested, a fourfold increase over the preceding year. Six projects were completed and put into operation or partial operation in the same year. These projects were: the Nandu Jiang highway bridge, the main runway of the Haikou airfield, the Haikou barge pier and passenger wharf, the train power station with an installed capacity of 16,000 kW, the extraction project of the cobalt mine of the Hainan mine and the overflow ore-dressing plant for high-grade powder ores and the Haikou brewery. Key construction

projects will be further developed on Hainan this year. In addition to the 18 projects carried over from last year, another 6 new projects have been added. According to statistics, these 24 key projects require a total investment of 1,778,000,000 yuan. Of them, nine projects come under the category of communications construction, three under energy construction, one under telecommunications construction, one under tourism construction, four under scientific and educational construction, five under industrial construction and one under agricultural, forestry and water conservancy construction. The planned investment for these projects this year totaled 403 million yuan or an increase of 12.9 percent over investment for key construction projects last year. As a whole, the characteristics of this year's key construction projects are that communications construction projects are progressing relatively faster, the supply of funds and materials of projects with funds allocated by the central authorities and investment from local financial resources is more assured. However, progress of projects funded by loans and in the form of joint management and joint ventures have fallen short of the demands. Some projects are short of funds and materials and the technical forces for construction are weak; construction progress has been slow and there are also problems regarding engineering quality.

To push the key construction projects forward, the construction commission and the planning commission of the Hainan administrative district jointly called a key construction work conference from 12 to 13 August. The conference put forth the following demands to the leadership at all levels: (1) Strengthening overall planning and ensuring smooth construction progress of all key projects. The people's government and the people in places where the key projects are located should put the general interest above everything else and ensure the requisition of land, dismantling and relocation, and the supply of materials and construction forces locally for the key projects and support the construction of key projects with actual deeds. (2) Strengthening leadership and accelerating construction of key projects. The governments and departments concerned at all levels should designate special persons and set up special organizations, strengthen leadership, streamline relations with all quarters and solve problems existing in construction. Efforts should be made to ensure the completion and putting into operation or partial operation of the eight projects within this year. These eight projects are: the second-phase construction of runways at the Haikou airfield, the main structure for two 5,000-ton-class wharves in Haikou harbor, the main structure of the miscellaneous cargo pier at the Basuo harbor, the Lingba [1545 0360 Lington-Basuo?] railway, the 110,000-volt transmission line between the Wanning and Lingshui section, the Hainan scientific and technological center building, the weaving shed of the Haikou textile printing and dyeing plant and the Haikou guest house. The construction of other projects should also be accelerated so as to complete them ahead of schedule. (3) Emphasizing engineering quality and raising investment results. Not only the quality of construction and installation but also the equipment and fittings must be guaranteed. Units in charge of construction of key projects should set up quality-inspection organizations and assign special persons to take charge and carry out strict inspection of each and every link involving designing, construction of projects, and material and equipment and also to handle quality problems seriously when discovered and affix responsibility of personnel when serious quality problems occur.

FOREIGN TRADE AND INVESTMENT

CHINESE-SOVIET TRADE SURVEYED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 85 pp 39-40

[Article by Zheng Ren [1767 0086]: "The Past and Future of Chinese-Soviet Trade"]

[Text] China has been trading with the Soviet Union for over 30 years. Chinese-Soviet trade can be traced to the days before the PRC was established. At the time China was not completely liberated, but our liberated areas in the northeast were already conducting some form of export-import trade with the neighboring USSR.

After the PRC was established on 1 October 1949, Chinese-Soviet trade was put on the right track. The government established a foreign trade section in the Ministry of Trade of the people's government to exercise unified leadership over the country's foreign trade. In the beginning, owing to the economic blockade imposed against us by some imperialist nations, Chinese-Soviet trade was a major component of our foreign trade and the USSR was also our largest trading partner. Each year our government entered into formal barter and payments agreements with the Soviet Government. Led by the Ministry of Trade of the people's government, we successively established a number of export and import companies primarily to engage in trade with the USSR and socialist nations in Eastern Europe.

After the establishment of the Ministry of Foreign Trade in 1952, Chinese-Soviet trade expanded year after year, hitting a high of almost 2 billion rouble in 1959. We were then riding the crest of a surge of economic development and urgently needed to import from that country whole plants and other industrial products. The 150 pieces of industrial equipment we imported from it at the time, including equipment for such heavy industries as metallurgy, machine building, petroleum, coal and transportation played a positive role in laying our industrial foundation. For instance, large enterprises like the Changchun Auto Plant and Wuhan Iron and Steel Works were built with Soviet equipment. We exported to the USSR goods needed by the Soviet people, including light industrial and textile products, daily consumer goods, and foodstuffs, to offset the costs of our imported hardware. Our exports also contributed significantly to meeting the Soviet people's daily needs. Sometimes it was more convenient to ship products from China to the Soviet Far East since the transportation routes were shorter than to haul them

all the way from the western Soviet Union. In the process the USSR was able to make considerable savings in freight.

Chinese-Soviet trade declined and stagnated in the 1960's and 1970's, reaching a nadir in 1969 when bilateral trade amounted to only 24 million roubles. Although it improved slightly in the 1970's, the highest annual trade figure recorded was just 400 million roubles. More often it hovered around 300 million roubles.

As the 1980's began, Chinese-Soviet trade expanded year after year, growing by 175, 60 and 36 percent in 1983, 1984 and 1985 respectively over the year before. In 1985, bilateral trade was valued at 3.6 billion Swiss francs (\$1.6 billion) and recently the two countries also exchanged notes on supplementary trade. Chinese-Soviet trade has been increasing at the rate of 1 billion Swiss francs every year over the past few years, and although it has yet to equal the record set in the 1950's at the peak of Chinese-Soviet trade, the rapid growth in recent years is striking. During his visit to China in December 1984, Ivan Arkhipov, first deputy chairman of the Soviet Council of Ministers, held lengthy discussions with Chinese officials about further strengthening bilateral economic trade and technical cooperation. The talks went well and soon led to the conclusion by the two nations of three agreements: the Chinese-Soviet economic and technical cooperation agreement, scientific and technical cooperation agreement, and an agreement on the establishment of a Chinese-Soviet economic, trade and technical cooperation committee. They also agreed to conclude in the first half of 1985 a long-term economic and trade agreement for the period 1986-1990. Among other things, the Chinese-Soviet economic and technical cooperation agreement provides for Soviet commitment to the technical modernization of some Chinese enterprises and the import from the USSR of modern, large-scale equipment. The signing of these agreements points to the considerable progress which has occurred in trade and economic and technical cooperation and, as long as the two nations adopt a positive attitude, will lead to a substantial growth in trade and pave the way for a stable trade relationship in the future.

China and the USSR are two big countries adjoining each other. Both are vast in size and richly endowed with resources. Their bilateral trade is highly complementary and they both have immense markets. Their common border, the longest in the world, facilitates the shipment of goods and helps both nations achieve massive freight savings. For these reasons, the potential for bilateral trade is huge.

As Chinese-Soviet trade expanded in recent years, contacts between the two peoples have also become more frequent. Since 1983, they have successively exchanged trade groups, buying missions and technical study groups in such industries as metallurgy, coal, automobiles, electric power, agriculture, chemicals and light industry and textiles. In 1983 China held a book exhibition in the USSR which was warmly received by the Soviet people. In March 1984, the USSR was invited to take part in our multinational medical equipment show and in 1985 we will be participating at Soviet invitation in an international exhibition in Moscow. Also in recent years, the two countries have held several sample exhibitions and technical exchange symposia which did much to promote mutual understanding and further trade.

Among major Soviet exports to China are rolled steel, timber, nonferrous metals, chemical fertilizers, cement, airplanes, automobiles and various machine products. Chinese exports consist primarily of foodstuffs, light industrial and textile goods such as pork, corn, peanuts, soya beans, cotton, tea leaves and thermos. Chinese light industrial products, textiles, silks, thermoses and other daily consumer goods are highly prized by the Soviet people. In Moscow, we often saw Chinese thermoses displayed like ornaments on window sills in apartment buildings. Although most of them were quite old and looked like 1950's and 1960's models, they were still much treasured. Chinese sneakers are particularly popular among the Soviet youth. It is generally thought that Chinese sneakers are well-made and comfortable and have a lot of spring. Shopping in China, a member of the Soviet trade personnel once bought a dozen pairs of sneakers. Asked why he bought so many, he said, "Too many people ask me for something. My friends will be happier to receive a pair of sneakers than anything else." In Soviet stores, Chinese goods are a sure way to attract throngs of customers. Chinese silks are highly regarded for their good quality and beautiful designs and are particularly sought after by women as high fashion. The Soviet people are happy to be able to obtain Chinese canned food. Middle-aged and elderly people, who still have a vivid memory of the Chinese products they were used to in the 1950's, show a lingering affection for and interest in Chinese goods and cherish a nail clipper or even a balm for treating headaches. Accordingly, developing Chinese-Soviet trade also has implications for cultivating our relations with the Soviet people and promoting friendship and understanding between the two nations.

Apart from the signing of barter agreements and payments agreements by the two governments, border trade has gradually come back to life in recent years. Border trade between Heilongjiang Province and the Soviet Far East, and between the Nei Monggol Autonomous Region and the Soviet border, has been increasing year after year. In 1984, border trade between the Nei Monggol Autonomous Region and the Soviet Far East rose 400 percent over 1983. Fully living up to the principle, "equality and mutual benefit, and help supply each other's needs," they sell to each other what each needs.

Besides the two existing border rail shipment stations at Manzhouli and Erlianhaote, two vehicular transportation border centers at Huoerguosi and Tuergete in Xinjiang have been reopened in recent years to accommodate increasing Chinese-Soviet trade. Since 1983, the two vehicular transportation centers have formally begun transshipment services, significantly facilitating and boosting import and export trade between Xinjiang and the Soviet side of the border. The two governments have also arranged for ocean shipping for merchandise unsuited for land haulage because of their quantity or bulkiness.

Relevant agencies on both sides have done a good job in executing bilateral trade agreements. As trade expands in the future, each will sell the other more and more of what it needs. The development of Chinese-Soviet trade is consistent with our open door policy and helps speed up the four modernizations. Consequently it has a bright future and also meets the aspirations of the Chinese people.

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FOREIGN TRADE AND INVESTMENT

ANSWERS TO FOREIGNERS' QUESTIONS ON INVESTING IN CHINA

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 85 pp 29-30

[Interview with Dong Shizhong [5516 0013 1813], associate professor of law at Shanghai Fudan University; date and place of interview not given]

[Text] Question: What kind of accounting system is used by Chinese-foreign joint ventures to calculate net profits?

Answer: Joint ventures in China basically follow the same accounting system as that used elsewhere in the world. To calculate its profit, a joint venture takes the income from the sale of its products and subtracts from it sales taxes, production costs, marketing costs and administrative costs. The balance is its profit on the sale of its products. If the enterprise has other incomes, those incomes minus costs should be added to the sales profit to yield the enterprise's total profits. The sum is the enterprise's taxable income as far as income tax is concerned.

Question: Are joint ventures audited independently?

Answer: Joint ventures are audited independently, but certain documents, papers and reports should be audited and certified by Chinese-licensed accountants. With its board of directors' permission, the foreign partner in a joint venture may retain a foreign accountant to examine its books, but the costs of hiring this accountant should be borne by the foreigner and not the joint venture. Auditing results are for reference only and not legally binding.

Question: Can a joint venture freely convert renminbi into foreign exchange?

Answer: China enforces foreign exchange control and joint ventures in China cannot freely convert renminbi into foreign exchange. However, a joint venture may open a foreign currency account with the Bank of China and deposit into it its foreign currency income. In general, its foreign currency expenses should not exceed the balance in its foreign currency account. This is stipulated in Article 75 of the Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures: "A joint venture shall normally balance its foreign exchange income and expenditures."

Question: To what extent can a joint venture be compelled to balance its foreign exchange?

Answer: A joint venture's foreign exchange expenditures must derive entirely from its foreign exchange income. The Chinese Government normally does not make up the deficit in a joint venture's account. When a joint venture which produces essentially for the domestic market fails to balance its foreign exchange account, the relevant provincial, municipal or autonomous regional government or State Council ministry may resolve the situation by transferring funds from locally retained foreign exchange. Failing this, the Ministry of Foreign Economic Relations and Trade may examine the case in conjunction with the State Planning Commission, and the state will work out a solution.

Question: Can a joint venture open an account in a foreign bank or hold assets overseas?

Answer: A joint venture can open an account in a foreign bank, but only with the permission of China's State Foreign Exchange Administration Bureau and its branch bureaus. Moreover, the enterprise must file reports with the bureau and its branch bureaus on its incomes and expenditures and make available bank statements. The same conditions apply to the ownership of foreign assets by a joint venture.

Question: Can a joint venture borrow from a foreign bank?

Answer: A joint venture may borrow from a foreign bank with the permission of the State Foreign Exchange Administration Bureau and its branch bureaus. After it has been signed by the bank and the borrowing enterprise, a copy of the loan contract shall be filed with the administration bureau and branch bureaus to facilitate remittance overseas of future principal and interest payments.

Question: In what currency will the Chinese People's Insurance Co pay damages to a joint venture?

Answer: In the event of an accident, the Chinese People's Insurance Co will pay damages to a policyholder in the same currency in which the policyholder bought the insurance policy.

Question: How are the fixed assets of a joint venture disposed of?

Answer: Before a joint venture disposes of its fixed assets, it must first estimate their value. Normally the depreciated value of an asset is 10 percent of its original value. The depreciated value is subtracted from the original value and the balance divided by the number of years it has been in service. The minimum depreciation period is 20 years for a plants and buildings, and 10 years for machinery, equipment and large-scale means of transportation. Most means of transportation can be depreciated over a period of 5 years. A joint venture can apply for accelerated depreciation or other forms of depreciation.

Question: What are a joint venture's three funds? How should they be used?

Answer: The three funds are the reserve fund, development fund and employee reward and welfare fund. The reserve fund is to cover any losses the enterprise may suffer and to meet other emergencies. With permission, this fund may also be used to increase a joint venture's capital for expansion. The aims of setting up a development fund in a joint venture are to develop production, purchase fixed assets, increase cash flow and finance the trial-manufacturing and research and development of new products and staff training. The worker reward and welfare fund is to reward a worker's contribution to production and improve his livelihood. It may not be used for reinvestment.

Question: Is there a dual exchange rate in China? Which foreign exchange rate would apply when a joint venture remits profits overseas?

Answer: There is only one foreign exchange rate in China, and that is set by the State Foreign Exchange Administration Bureau. This rate is used in calculating the investments to be put up by the partners of a joint venture and the amounts of taxes payable by them. When a joint venture remits profits in a foreign currency, the problem of foreign exchange rate does not arise. If the profits distributed are in renminbi, the joint venture must convert them into a foreign currency before they can be sent out of the country. The method of conversion shall be decided by the enterprise's board of directors.

Question: Can a joint venture borrow from the Bank of China? On what terms?

Answer: Yes. According to Bank of China regulations, three kinds of loans are available to joint ventures: (1) Cash flow loans, mainly to help out enterprises strapped for cash in the course of commodity production and circulation. (2) Accounts loans, to regulate the production funds of an enterprise, a large part of which is tied up in the marketing process. (3) Fixed assets loans, to help finance expansion and the modernization of fixed assets.

Each of these types of loans can be in either renminbi or foreign exchange. If you borrow in a certain currency, you pay back the bank in that particular currency. Interest payments on a foreign currency loan are calculated in that currency. If the loan is in renminbi, the interest rate will follow rates set by the Bank of China. If the loan is in a foreign currency, the interest rate will be calculated according to international market rates. The maturing period is usually from 1 to 5 years, depending on the circumstances of the case.

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FOREIGN TRADE AND INVESTMENT

FUJIAN GOVERNOR ON INCREASED FOREIGN COOPERATION

OW241931 Beijing XINHUA in English 1520 GMT 24 Oct 85

[Text] Fuzhou, 24 Oct (XINHUA)--Fujian Province signed more than 300 contracts with foreign firms in the first 9 months of this year, provincial Governor Hu Ping told the provincial People's Congress here on Tuesday. These contracts involved U.S.\$260 million of foreign investment--137 percent more than in the same period of last year, he told the current session. The actual amount of foreign investment used totalled U.S.\$52 million--an increase of 161 percent over the same period of last year.

Hu said progress had been made in upgrading existing enterprises with imported technology and overseas labor services. Of 189 items approved by provincial authorities this year, 60 had been put into effect. They were expected to increase output value by 170 million yuan and profit by 35 million yuan a year when they all went into full operation.

The number of foreign labor service contracts increased by 20 percent.

Up to the end of last month, Fujian exported goods worth U.S.\$290 million--14 percent more than in the same period of last year.

Xiamen special economic zone spent 360 million yuan on capital construction in the first 8 months of this year.

Hu said the city had signed 266 joint-venture contracts involving U.S.\$1,070 million with foreign and overseas Chinese business people over the past few years. Seventy-two of these joint enterprises had gone into production.

Construction of infrastructure in the Fuzhou economic and technical development zone was under way. A quarter of the 20 contracts signed between the zone and foreign business people and enterprises in inland areas had now gone into production.

To pave the way for further rapid economic development, provincial authorities planned to build several power generating plants and wharves over the next few years.

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CSO: 4020/71

FOREIGN TRADE AND INVESTMENT

RECORD BUSINESS REPORTED AT GUANGZHOU EXPORT FAIR

OW260910 Beijing XINHUA in English 0810 GMT 26 Oct 85

[Text] Guangzhou, 26 Oct (XINHUA)--Hotels and other service trades here are reporting record business since Guangzhou's autumn export fair opened on 15 October.

Big hotels, such as the China Hotel, Dongfang and Liuhua, near the Guangzhou trade center, all report full houses. The manager and senior staff of the China Hotel have moved out to make room for foreign business chiefs.

According to Chen Chongliang, reception director of the fair, there were more than 70,000 visitors in the first 10 days, including 16,300 overseas business people from 79 countries and regions. Chen said they had booked foreign visitors into 27 well-furnished hotels, and were hiring 6,600 taxis every day.

The China Hotel reported average daily takings of more than 450,000 yuan compared with 250,000 yuan normally. Business turnover at the Dongfang Hotel has also jumped to 170,000 yuan from 100,000.

The 18 hotels under the Guangzhou Catering Service Company reported takings up by 46 percent compared with the first 10 days of the fair last year.

In addition, many Hong Kong business people are commuting between their homes and Guangzhou--easing the strain on the city's service trades.

Vice-Chairman of the fair Lin Zhongming told reporters that business over the first few days had been good, and that buyers and sellers were full of confidence.

He gave no figures for the number of transactions, but said textiles, especially cotton fabrics and yarns and synthetic fabrics, were selling well. Zhejiang green tea sold out in the first 2 days, while supplies of cloisonne and some steel materials were running short.

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CSO: 4020/71

FOREIGN TRADE AND INVESTMENT

WUHAN DIESEL ENGINE PLANT STEPS UP EXPORTS

OW250732 Beijing XINHUA in English 0645 GMT 25 Oct 85

[Text] Wuhan, 25 Oct (XINHUA)--Werner Gerich, the first foreigner to head an enterprise in new China, has begun to step up exports from the Wuhan diesel engine plant.

A plant official reported that a new batch of 295 diesel engines had met export standards set by the state. They are part of a contract for 2,000 engines for countries in Southeast Asia and West Africa.

When Gerich met Vice-Premier Yao Yilin and State Councillor Zhang Jingfu last month, he told them his ambition was to break into the international market.

The 65-year-old retired engineer from Federal Germany became director of the plant in this Hubei provincial capital last November.

Over the past 13 years, the plant had exported only about 1,000 engines, mainly because of backward technology.

The plant official said their growing success was the direct result of guidance from Gerich, who regarded quality as the lifeline of the plant. He inspected the workshops almost every day, consulted the workers on ways to solve problems and had won their respect and admiration for combining strictness with fairness.

Gerich's practical approach has also been praised by local officials, and he has been described as "Mr Quality" by Wuhan Mayor Wu Guangzheng, who said that other local managers should learn from him.

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CSO: 4020/71

BRIEFS

NEI MONGGOL TRADE FIGURES--Hohhot, 26 Oct (XINHUA)--Inner Mongolia's foreign trade is expected to reach U.S.\$180 million this year, 330 percent more than in 1980, according to the region's Foreign Trade Bureau. Imports are estimated at more than U.S.\$77 million and exports \$110 million. Major export items include cereals, oil, food, animal by-products and medicine. New products include rare earth metals, wind-power electric generators, western-style clothing and broken soya bean cakes. Since 1979, the autonomous region has established business ties with 35 countries and regions, including Britain, the Federal Republic of Germany, France, Japan, the United States and Oceania. Border trade with the Soviet Union is expected to reach U.S.\$8 million. [Text] [Beijing XINHUA in English 0634 GMT 26 Oct 85]

JAPANESE TECHNOLOGY OFFICIAL--Beijing, 5 Oct (XINHUA)--Vice-Premier Li Peng met Yorimichi Sugaya, president of the Japan-China Exchange Association for Industry and Technology, here today. Li said he appreciated efforts by the Japanese association to promote Sino-Japanese scientific and technological exchanges, and also its help in providing advanced training for Chinese technicians at Japanese factories. Sugaya said he hoped to see further development in such cooperation between the two countries. Tonight, Sugaya, his wife and their visiting party were given a dinner by Zhou Peiyuan, vice-chairman of the National Committee of the Chinese People's Political Consultative Conference and chairman of the Chinese Association for Science and Technology. The Japanese friends arrived here on Friday on a goodwill visit to China at Zhou Peiyuan's invitation. [Text] [Beijing XINHUA in English 1854 GMT 5 Oct 85]

JAPANESE OFFICE EQUIPMENT EXHIBITION--Beijing, 22 Oct (XINHUA)--A Japanese Modern Office Equipment and Technical Exchange Exhibition opened at the Museum of the Chinese Revolution here today. The week-long exhibition is sponsored by the Scientific and Technical Information Institute of China and the Japan-China Science, Technology and Culture Center. On display are microfilm equipment and copying machines, small printers, video and audio facilities, documentation and archives files, and special office furniture for libraries and technical information institutions. All the exhibits are provided by 31 Japanese firms. Hu Keshi, vice-chairman of the Education, Science, Culture and Public Health Committee of the Chinese National People's Congress, and Kagechika Matano, charge d'affaires ad interim of the Japanese Embassy in Beijing, cut the ribbon to open the exhibition. Wang Tingjiong, director of the Scientific and Technical Information Institute of China, and Saburo Toida, member of the Japanese House of Representatives, spoke at the opening ceremony. [Text] [Beijing XINHUA in English 1059 GMT 22 Oct 85]

SPECIAL ECONOMIC ZONES

PRICE REFORM IN SHENZHEN SPECIAL ECONOMIC ZONE REVIEWED

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 8, 15 Aug 85 pp 22-24

[Article by Zhou Bingteng [0719 4426 7506]: "Price Reform in Shenzhen Provides a Lesson in Successful Reform"]

[Text]

I

First established in 1980, the Shenzhen Special Economic Zone [SEZ] was soon developing so fast that more and more its original price system became a hindrance to further economic growth. It became imperative under the circumstances that the irrational price system be reformed.

In its early days, the SEZ followed the same price system as the interior, which grew out of the price system of the old society and has gone through a series of adjustments without being fundamentally overhauled. The prices of many commodities reflected neither their value nor the supply-demand relationships. Among its major irrationalities were the minimal price differentials between products of the same kind despite their qualitative differences, the depressed prices of some mineral products and raw materials and the divorce between the buying and selling prices of major agricultural by-products, with the selling prices actually falling below the state procurement prices. The price system was so patently irrational that reform became imperative even in the interior. With its economy developing by leaps and bounds, the demand for reform in the SEZ took on additional urgency.

In the early years, market demand in the zone shot up sharply and as the gap between demand and supply widened, prices rose steeply. The sharp increase in demand can be attributed to two factors. First, there had been a big jump in population. Shenzhen was originally a small town with a population of only 20,000. After the establishment of the SEZ, an army of cadres and workers was drawn to the area. From 1980 through 1983, the number of workers alone increased from 44,500 to 128,000, in addition to a transient population of 100,000 construction workers. Furthermore, it has a substantial mobile population; an average of 20,000 people enter the zone from the interior everyday. Its current population is even larger, 420,000 in the municipality, of whom 190,000 reside in the zone. Second, as the zone has developed, the income of its residents has also gone up steadily. The average monthly wage of workers in state-run enterprises, which was 47 yuan in 1978, rose to 131

yuan in 1983 and 200 yuan in late 1984 after the wage system was reformed. In 1983, the per-capita income of peasants was 469 yuan in the municipality as a whole, up from 134 yuan in 1978, and 840 yuan in the SEZ. The rapid and substantial increases in population and wages exerted a dual pressure on commodities at a time when the zone's agricultural by-product production base, still in its infancy, had only a limited output, and the circulation channels of agricultural products from the interior were partly clogged. The result was worsening shortages. The prices of agricultural by-products climbed continuously, especially in the first 2 years. Under those circumstances, we had to speed up the development of the agricultural by-product production base to multiply its output, on the one hand, and remove any obstacles blocking the smooth flow of hinterland commodities to the zone on the other so that more interior products could find their way into the SEZ. To accomplish these objectives, we naturally had to take administrative measures to strengthen planning guidance over the production base, but an exclusive reliance on planned supplies and the coupon system was no basic solution. We also had to adjust prices to regulate the production and movement of agricultural by-products. This involved reforming our planned price system and fundamentally putting an end to excessive centralization.

The influence and functions of the international market constitute another important reason why we reformed the zone's price system. As the zone continued its rapid growth, more and more Hong Kong and Macao compatriots and nations around the world took an interest in it and more and more people began to invest in it and build plants there. More and more people visited the zone on study missions, as tourists or to shop. According to statistics, about 20,000 people enter Shenzhen from Hong Kong and Macao on an average day, sometimes as many as 50,000 to 60,000 people. Clearly this influx of people imposes additional pressure on the market, driving prices up even further. When people go shopping to Shenzhen, they are mostly after agricultural by-products because such products are more expensive in the international and Hong Kong markets. At the same time, agricultural products in Shenzhen are being siphoned off to Hong Kong through a variety of channels, yet another source of pressure on the agricultural market in the zone and another factor behind soaring agricultural prices. The international law of value has an extensive role as a market regulator, closely integrating the zone market with the international market. The fact that the SEZ is sandwiched between the interior market and the international market and located at the meeting point of two price systems requires that we adopt a new price system and a new price policy which differ from both the system in the hinterland and that in Hong Kong and which is highly flexible and compatible with the economy of the zone. When the SEZ management front becomes formally operational, in particular, we must take into account the influence and function of the international market and give it due regard. It is not possible for the SEZ to continue its old price system, one which bore no relationship whatsoever to international prices. Instead, as its externally-oriented economy gradually takes shape, Shenzhen must continuously seek to expand the area of compatibility between its system and international prices.

So we must reform the price system. But how? That was the hard part. Had we moved too slowly, we would not have been able to meet the needs of the burgeoning economy in the zone. If we had gone too fast, we would have removed ourselves from realities and made mistakes. This is because price issues are extremely complex; make a slight move in one area, and you may affect the situation as a whole. Accordingly the SEZ took a firm but cautious attitude by first laying down the following principles: (1) Seriously adjust irrational price ratios in accordance with the objective demands of the law of value and market supply-demand changes. We should raise those prices that should be raised and lower those that should be lowered and, in the process, straighten out economic relationships. (2) Existing lopsided agricultural prices should be set right. Prices and wages should be related to each other. Our aim should be to create a situation where productivity increases are substantially higher than wage increases which, in turn, remain slightly ahead of price increases to ensure that the masses of residents' real earnings will not decline because of price adjustments. (3) Strengthen guidance and supervision, prevent people from raising prices in turns and make every effort to achieve relative stability. (4) Make our first moves cautiously, constantly review experience, take a gradual approach, and advance slowly but surely. Our reform must be well-led, well-organized and well-planned.

In accordance with the above principles, Shenzhen spent 2 years carrying out in-depth research and making full preparations before it made its first move. In the course of reform, it prioritized its tasks in order of urgency and tackled simple issues before complex ones, small articles of daily use before important materials, general agricultural by-products before industrial products of daily use, and daily consumer goods before merchandise purchased in fixed quantities with coupons. The entire reform falls into three stages:

Stage 1 (1981-1982): A small number of units and commodities were selected for experimentation. Selected commodities came from three major categories where supplies were particularly tight: vegetables, aquatic products and foodstuffs. Detailed reform measures were: (1) Deregulating and gradually delegating the power to set commodity prices. State control over fruit prices were abolished and replaced by the market supply-demand relationship. The state also relinquished its power to set prices for vegetables, decontrolling dried and high-grade vegetables first, followed by fresh vegetables and low-grade vegetables. Fresh-water fish was completely decontrolled. While the government would continue to set prices for saltwater fish at the middle and upper end of the scale, saltwater fish of a lesser quality was decontrolled. As far as food is concerned, fresh pork, cured pork, poultry and fresh duck eggs would continue to have officially fixed prices, while the prices of frozen pork, stewed pork, ducks, geese, salted eggs and fresh eggs would be decontrolled. (2) Enlarging the price differentials between commodities. Price differentials of vegetables were increased to reflect qualitative disparities and seasonal factors, and distinguish wholesale from retail prices. Seasonal differentials were increased from 30-50 percent to 70 percent, even above 100 percent. Wholesale-retail differentials rose from 25 percent to 33 percent. Price differentials between high-grade, good-quality fish and fish of a lesser quality were increased. So were price differentials

between meats of varying quality; the prices of lean meat were raised while those of meat with a higher fat content were lowered. (3) Raising procurement prices and allowing them to float within a certain range. The procurement prices of vegetables and aquatic products increased by 25.5 percent and 3 percent respectively in 1981 over 1980. Procurement prices were allowed to fluctuate within 30 percent of the list prices.

Stage 2 (1983-October 1984): The experience of experimental reforms in the first stage were popularized within a small area and continuous efforts were made to delegate the power to set prices, limit the number of commodities with fixed prices and expand the scope of price decontrol. In the past, the purchase of sugar, live chickens, fresh duck eggs and fresh and cured pork was governed by a coupon system. Now the coupon system was abolished and the market was left to regulate itself. The prices of certain essential means of production including the five major groups of steel, cement, timber, coal and electrical machinery, imported above the planned quantities, were allowed to float within a specified range. So were the prices of 15 major categories of products, including home electrical appliances, chemical fertilizers and pesticides. At the end of Stage 2, the retail sales of commodities with unregulated prices grew spectacularly to account for a major share of total social commodity retail sales in the municipality, from 15 percent in 1979 to about 80 percent in 1984.

Stage 3 (November 1984-): During this stage, the coupon system and rationing were completely abolished. The government only sets the maximum prices for grains, oil, gas and briquets. Sales and purchases are to be negotiated. Losses mandated by policy and financial subsidies were abolished.

After 4 years of gradual reform, Shenzhen's price system has preliminarily been rationalized and the price management system has also been changed drastically. Today price management in Shenzhen can take one of these three forms: (1) Price planning: This is applied to railroads, aviation, shipping, posts and telecommunications, essential means of production whose import and distribution are planned by the state, and essential services and charges such as rents (except in Shekou), water, electricity, medical and health care, municipal transportation, telephone and school tuition. (2) Price floating: Examples are main aquatic products, grain, oil, fresh pork and gas. (3) Price decontrol: The prices or fees of commodities and labor services which do not belong to the two groups above are completely decontrolled and are free to move as the market moves in response to supply-demand changes. Of the three types of prices, planned prices are few and far between and floating prices are uncommon; most prices are free [decontrolled] prices.

III

Price reform has injected an extra dose of vitality into the Shenzhen SEZ economy. Reform results are striking, as demonstrated mainly by the following:

1. The market is flourishing, both buying and selling are brisk and the yawning gap between supply and demand has basically been bridged. Almost every year sees steep rises in the city's social commodity retail sales, total

purchases of interior commodities, total sales to the interior, and total imports and exports. Take 1984, for instance. Social commodity retail sales totalled 1.8 billion yuan, up 43.9 percent over 1983 and 880 percent over 1979. Total purchases from the interior were valued at 1.59 billion yuan, up 81 percent over 1983, while total sales to the interior rose 85.2 percent over 1983 to 2.09 billion yuan. Imports and exports grew 74.7 percent and 390 percent respectively over 1983 to reach 420 million yuan and 82 million yuan. The market in agricultural products is even more active. In 1984, more than 300 kinds of agricultural by-products were put on the market everyday, with a combined turnover of 6,700 dan valued at 57.13 million yuan, up 170 percent and 117 percent respectively over 1983.

2. Formerly skyrocketing prices moderated and have now essentially stabilized. Even after the abolition of the coupon system in grains and oils and wage reform, there have been no violent price fluctuations and certainly no panic buying. In general, prices in Shenzhen have gone through a four-stage transformation. The first stage lasted from 1979 to the fall of 1981 when prices soared, pushing up the social commodity retail price index by 17.1 percent in 1979 and 13.7 percent in 1980. From 1978 to 1981, the index rose 42 percent, or at an average annual rate of 12.4 percent. In the same period, the non-staple food retail price index rose 35 percent, or 10.5 percent annually. During the second stage, that is, from the fall of 1981 to the end of 1982, price increases eased gradually; the social commodity retail price general index rose only 7.8 percent in 1982 over a year earlier and the non-staple food retail price index went up a mere 5.6 percent. Single-digit inflation had replaced double-digit inflation. The third stage covered 1983 through September 1984. The social commodity retail price general index in 1983 was only 2.1 percent higher than in 1982, the smallest annual increase since the SEZ was established. From January through September 1984, the workers' cost of living general index also rose by just 2 percent over the same period in 1983. Stage 4 covers the period since October 1984. Once again prices have been rising rapidly, particularly early this year. The workers' cost of living general index shot up 16.7 percent in October-December 1984 compared to the corresponding period the year before, of which the consumer goods retail price index rose 29.6 percent and the service charges index by 13.9 percent. Among consumer goods, such categories as food, medicine and fuels experienced exceptionally sharp increases of 40 percent, 47.1 percent and 91.3 percent respectively. The substantial increase in medicine costs was mainly accounted for by the introduction of buying and selling by negotiation in Chinese herbal medicine, whose price index jumped 81.5 percent over the same period in 1984. Some of these increases are reasonable and in keeping with the decontrol of oil and grains and the residents' rising incomes in the wake of wage reform. As such they are a normal phenomenon. Others result from the unhealthy tendency to jack up prices arbitrarily. With relevant departments in the municipal government taking vigorous effective measures, the problem is gradually being resolved. The prices of country fair trade have remained stable, dropping 10 percent in 1984 compared to 1983, but rising 6.5 percent in January 1985 over the same month last year, and differing by just 15.1 percent from prices in the state-run commercial sector. By and large the post-reform situation is good. Gone are the shopping queues, panic buying and attempts to obtain merchandise through pull or influence.

3. Wages have risen faster than prices and the standard of living has improved. From 1978 through 1984, the social commodity retail price index rose 53.9 percent while workers' wages went up 302 percent. In other words, wages have risen faster than prices. Peasants' standard of living has gone up even more rapidly. In 1984, their per-capita income was 1,060 yuan, 700 percent more than the 134 yuan they made in 1979. Residents' savings deposits totalled 290 million yuan, or 960 yuan per person, up 92 percent over 1983. The zone's per-capita income reached 3,109 yuan in 1984, or \$1,000, making for a "moderately comfortable" standard of living.

In short, price reform in Shenzhen is basically a success to which many factors have contributed. They can be summed up as follows:

1. The reform was not carried out blindly but was well-led, well-organized, well-planned and systematic. At the very outset the zone worked out a set of basic principles in accordance with the principle that you can manage something without controlling it to death and decentralize power without causing chaos. As a result, people had something to go by and major errors or trouble were avoided.

2. The reform took as its point of departure the dominant feature of the zone's economy, marketplace regulation, and proceeded in tandem with reforms in its planning system. At present, except in such areas as population control, the budget and capital construction projects financed by local or state funds, guidance planning prevails everywhere and the law of value is functioning as a regulator in an ever-widening arena and to an increasing extent. Shenzhen's price system, accommodating three kinds of price but dominated by floating prices and free prices, is compatible with this situation.

3. The reform was executed firmly but cautiously. New measures were first tested at selected points, then popularized within a small area, and then, conditions being ripe, implemented universally. It took as long as 6 years from preparation to basic completion. One may well describe it as a step-by-step, steady-as-you-go approach, incremental and down-to-earth.

4. Price and wage reforms gradually became integrated with each other. To meet the needs of price reform at a time when the conditions for wage reform were still premature, the SEZ decided to first raise bonuses appropriately and increase necessary living subsidies. Once conditions were right, it cancelled the bonuses issued by party and government agencies and the recent subsidy increases (keeping existing subsidies such as free medical service, water, electricity and rent subsidies) and reformed the wage system so that wage increases fell in line with and actually slightly exceeded price increases. At present wage reforms in Shenzhen are limited to party and government agencies.

5. The reform took place on the basis of an continuously expanding economy. Price reform must rest on a solid material basis. If a zone decontrols prices and makes the market the primary regulator of prices amid serious material shortages, prices inevitably will go through the roof, the people will lose confidence and the economy will be impeded and damaged.

On the other hand, when the economy is growing and supplies are plentiful, major price movements are not likely and basic price stability can be maintained even in the wake of price reform. The Shenzhen economy has made major strides in recent years. According to statistics, in the 5 years (1980-84) since the zone was set up, the municipality's gross industrial and agricultural output value amounted to 3.21 billion yuan, compared with 849 million yuan for the entire 30 years (1950-79) before it came into existence, an increase of 278 percent. During the recent 5-year period, it completed capital construction projects with a total investment of 3.413 billion yuan, compared to 94 million yuan in the earlier period, an increase of 3,530 percent. Revenues grew 290 percent, from 290 million yuan to 1.134 billion yuan. The municipality's foreign exchange earnings rose 133 percent, from \$129 million to \$300 million. Social commodity retail sales increased 180 percent from 1.46 billion yuan to 4.1 billion yuan. If we compare 1984 when price reform was basically accomplished with 1983, we can see that it was also a year of rapid growth. The municipality's industrial and agricultural output values were 1.8 billion yuan and 190 million yuan respectively. Investments in capital construction projects amounted to 1.5 billion yuan, social commodity retail sales were 1.8 billion yuan, revenue was 500 million yuan and it raked in \$96 million in foreign exchange earnings. Compared to 1983, these figures represent increases of 150 percent, 28 percent, 70 percent, 43 percent, 67 percent and 42 percent respectively. It must be pointed out that the zone's flourishing market and abundant materials could not have come about without the interior's energetic support. Economic prosperity and development serve as a material bedrock for the success of price reform.

As an SEZ with its special economic policies, Shenzhen has its own uniqueness when it comes to price reform. Needless to say, when the interior goes about reforming its price system, it must not mechanically copy Shenzhen's approach. Yet, its uniqueness aside, there is much about Shenzhen's price reform which is common to the interior and can be utilized. Consequently the interior would do well to study Shenzhen's experience and methods as it tries to reform its own price system.

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LABOR AND WAGES

GUANGDONG INTRODUCES NEW WORKER RECRUITMENT SYSTEM IN 1986

Guangzhou YANGCHENG WANBAO in Chinese 12 Aug 85 p 1

[Article by Liu Xing [0491 2502]: "People Cannot Obtain Employment Without Going Through Vocational and Technical Training--A Responsible Person of Guangdong Provincial Labor Bureau Reveals Reform of Worker Recruitment System Next Year; Letting Large Numbers of People Take Up Jobs Without Going Through Training Will Affect the Quality of Workers, Lower Quality of Products and Cause Industrial Accidents Again and Again"]

[Text] "Starting from next year, Guangdong will enforce a worker recruitment system that requires persons to undergo training first before taking up jobs. No units or organizations are permitted to recruit directly from society graduates of junior and senior middle schools and other types of personnel who have not received any vocational or technical training." This is the information revealed to this reporter recently by Huang Feng [7806 2800], deputy director of the Guangdong provincial labor bureau just returned from the national conference on vocational and technical training.

Huang Feng said: The outmoded ideas and old influence that "attached importance only to official careers but belittled craftsmen" and shows no respect for skills have seriously impeded social development. For example, in some industrially developed countries, the ratio between graduates of universities, special or technical secondary schools and technical schools is 1:3:10. However, the 1984 ratio in our country was 1:1:0.5. The situation in our province in this respect makes people worry even more. About 300,000 graduates in the province without technical training are looking for jobs every year, of whom only about 100,000 went through training by the labor departments. With many people without technical training taking up jobs, it will lower the quality of workers, impair the quality of products and cause industrial accidents repeatedly.

Huang Feng told this reporter: Although our province has emphasized in recent years the need for examination in recruiting workers and giving jobs to superior persons, no technical training has been given to the young people who were tested only on general knowledge but not on skills. Thus, it is very hard to ensure the technical quality of new workers. At present, the primary-grade skilled workers accounts for 70 percent of the total number of workers and the number of high-grade skilled workers amounts to 2 percent and intermediate-grade skilled workers is less than 28 percent. In his opinion,

while the training of engineers and technicians is done by universities and special or technical secondary schools, the training of large numbers of intermediate and high-grade technical workers has to depend on technical schools. Vocational middle schools should also make an effort toward this direction. Our province has never paid much attention to technical education. The province up to now has a total of 96 technical schools with an enrollment of only 10,000 or so.

Huang Feng stressed that workers responding to recruitment from now on must be given a general knowledge and technical test. Those who have acquired a certificate of qualification but did not go through vocational and technical training cannot assume technical posts. Young people in society must have a certificate certifying their successful completion of vocational and technical training before they are allowed to take worker recruitment examinations. Various units recruiting apprentices must organize the recruits to study theory and skills through a partwork and part-study program or send them collectively to vocational and technical training centers run by enterprises. The labor department shall revoke the worker recruitment plans of those units who publicly recruit workers without authorization in violation of the requirement that training should come before employment.

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LABOR AND WAGES

RAISE WAGES IN GUANGZHOU

Guangzhou GHAUNGZHOU YANJIU [GUANGZHOU STUDIES] in Chinese No 1, 1985 pp 28-31

[Article by Xu Shaoji [6079 4801 1015] of the Guangzhou Municipal Housing Bureau: "Wages in Guangzhou Should Be Raised Considerably"]

[Text] [Summary] Current defects in the wage system, such as low wages, slow increases, fegalitarianism, the reversal of priorities, the separation of wages from productivity, disorder and rigidity, have a negative influence on the enthusiasm of the workers and inhibit the growth of economic gains in enterprises. The wage system should be thoroughly reformed and breakthroughs should be made in all aspects. The general goal is to allow the vast body of cadres and workers to bid adieu as quickly as possible to low wages, and to enable some workers and intellectuals who have made major contributions to enrich themselves first. Wage increases should be able to keep pace with the rate of increase in productivity. Because of its special conditions, the city of Guangzhou ought to raise wages even more.

The wage system currently in effect in the city of Guangzhou was established in 1956, at which time it served to motivate the workers. Twenty-eight years have passed since then, and great changes have occurred in all areas. The present wage system fails to adequately meet the needs of economic development. The system's faults can be capsulized by the following seven words: low [di 0144], slow [man 1976], egalitarianism [ping 1627], reversed [priorities] [dao 0227], separation [of wages from productivity] [li 4418], disorder [luan 0052], and rigidity [si 2984]. Di refers to the lowness of wages. The average wage in state-owned enterprises at the city level in Gunagzhou is 55 yuan. Including various subsidies and bonuses, it is only 95 yuan. Since commodity prices tend to be higher in Guangzhou, living expenses are greater. According to investigations, the per-capita monthly expenditure necessary even at the lower-middle is 53.8 yuan. Man refers to the slow rate of wage increases. The average wage in the city in 1983 was 33.1 percent higher than in 1952, but after price increases are taken into

consideration, the increase was only 16.33 percent. Ping refers to egalitarianism, and "eating from the same pot". No matter how much you do or how well you do a job, wages are the same. Dao refers to the reversal of priorities in which mental labor is rewarded less generously than manual labor, and in which leadership personnel in enterprises receive lower wages than workers of similar seniority. Li refers to the separation of wages from production, economic results and labor productivity. Economically effective enterprises cannot raise wages, while employee wages in enterprises running at a loss remain the same. Luan refers to the many different standards and regulations concerning wages which overlap each other, creating quite a few contradictions. Si refers to the state's centralized control over the management and distribution of wages. Enterprises and local governments lack the power to involve themselves in this. All these defects of the current wage system seriously inhibit the enthusiasm of workers and staff, hinder improvements in economic effectiveness, and have delayed the progress of socialist modernization.

Since the 3d Plenum of the 11th CPC Central Committee, tentative, initial reforms in the wage system of some Guangzhou enterprises have been implemented, such as wages based upon economic returns, systems of responsibility using contracts, determination of wages directly based on the amount of labor, plans in which wages are completely decided on a contract basis, pegging wages and bonuses to the economic returns of the enterprise, and so on. These trials have achieved some definite results, but the reforms are still tentative and partial, and can only garner limited results due to the fact that no breakthroughs have been made in increasing wage levels.

After the 3d Plenum of the 12th CPC Central Committee, the pace of urban reform will greatly increase, along with reforms in the wage system. If not, the inertia produced by the old wage system will surely retard economic reform. In addition, I believe that the reform of the wage system should be thorough, with breakthroughs occurring in all areas. The general goal is: after a few years of effort, allow the vast ranks of cadres and employees to say good-bye to low wages as soon as possible, to live comfortably, and to enable some workers and intellectuals whose contributions have been considerable to enrich themselves first. These views of mine are based on the following considerations:

First, if the pace of wage increases does not pick up, it will be difficult to resolve such outstanding problems as the reversal of priorities in which mental labor and complex labor are rewarded less generously than manual labor and simple labor.

There are many middle-aged teachers, engineers, managers, factory directors, and bureau and department heads at present in Guangzhou whose monthly wages are only 70 to 80 yuan, which is not as high as the wages of middle-rank workers. Some factory directors have an administrative ranking of 21 (68.5 yuan), which is equivalent to the income of only a grade-4 worker. Many intellectuals have had promotions in titles and increases in duties but still receive the same wages as before. The abnormal phenomenon of university professors and engineers receiving only 80 to 90 yuan per month is commonplace. In one institution of higher education in the Guangzhou area

more than one-half of the several hundred assistant professors and lecturers have not yet received the minimum wage that goes with their rank. Some receive wages that are two to three grades lower than the minimum. For example, the lowest wage for an assistant professor ought to be 165 yuan, but some assistant professors at this school receive only 99 yuan. Similar problems are widespread and have had a great negative effect on the progress of the "four modernizations." They must be solved as a part of the wage system reform. To do so, many wages must be raised. If the increase is inadequate, the problems cannot be resolved.

Second, workers engaged in heavy labor and in such jobs as excavation, underwater work, fishing, construction and undertaking, need to have their wages raised considerably. Otherwise, it will be difficult to motivate them and to replenish manpower in these lines of work, which will cause problems in stabilizing the ranks of the employees at their current level. Wage standards at present for construction workers in Guangzhou range from 40 to 120 yuan. Many skilled, grade-4 and -5 workers in their prime receive only 66 to 77 yuan, and even if payment for doing piecework above quotas is included, the figure is only about 100 yuan, or 4 yuan a day. Due to the heavy labor and low pay, a good portion of these workers are dissatisfied with their jobs and engage in peddling on the outside or contemplate changing to other lines of work. In recent years some construction companies advertised for workers in the newspapers, but received a very poor response despite the fact that there were tens of thousands of youths in the city still waiting for work. This is just one small aspect of the consequences of low wages in the construction industry. One construction team in Guangzhou spent 5 years building a hospital in Huangpugang, whereas in Shenzhen it took only one year to complete an office building. Although the scope of construction and costs in both cases were more or less the same, one took 5 times as long to finish. There are many reasons for this, but the main cause undoubtedly was the discrepancy in monthly wages--about 100 yuan in Guangzhou and 200 to 300 yuan in Shenzhen. Naturally levels of enthusiasm among the workers would be different. A multitude of facts show that: if just the forms wages take are reformed, without increasing the wages themselves, whether they be piecework or labor contracts, it will be difficult to arouse the enthusiasm of workers involved in strenuous labor. Therefore, wages should be increased considerably in order to motivate them and give full play to the proper role of wages as an economic lever.

Third, for most cadres and employees, many practical problems exist that require an increase in wages to resolve. Take the relatively numerous workers between the ages of 30 and 50, for example. These people are at the peak of their labor performance and form the backbone in all industries and lines of work, but for historical reasons their wages tend to be low (generally only receiving grade-4 wages, or about 60 yuan), and their household expenses are rather heavy. In addition to that, the prices in Guangzhou are high, as are living expenses. As a result they have more economic problems than they can cope with. It is inevitable that this situation will dampen enthusiasm for production. Therefore, whether the question is improving living standards or arousing enthusiasm, wage levels should be raised as quickly as possible.

Some of the reasons for more rapidly increasing the wages of workers and staff have been discussed above. However, knowing these reasons does not necessarily mean that wages can be increased more quickly. This will largely be decided by the pace of economic development and the correct disposition of consumption and accumulation.

It is entirely within reason to believe that the pace of China's economic growth from now on will be faster than in the past 35 years. This is not only because the party and state have devised totally correct economic policies, setting the great goal of quadrupling the annual gross industrial output value by the year 2000, but also because major economic quotas have been fulfilled beyond the plan due to rapid economic development over recent years, which presents us with a positive situation. We have even more reason to expect that after the 3d Plenum of the 12th CPC Central Committee establishes major policies and measures for urban economic reform, the development of the entire national economy will proceed at an even faster pace.

After the preconditions needed for economic development have been met, there still remains the rational arrangement of accumulation versus consumption. This problem was never completely resolved in the past. Instead an extremely flexible principle was established: the growth rate of wages must be lower than the growth rate of labor productivity.

Two questions will naturally be raised regarding this principle: How much lower is rational? And, couldn't the two rates maintain the same growth rate? Of course if the rate of wage increases throughout society were to exceed that of productivity, it would inevitably lead to a reduction in accumulation, and decrease the rate of growth of productivity. However, this does not rule out the possibility of basing wages in certain industries on productivity. For example, the State Council has established a labor contract system for the construction industry in which for every output value of 100 yuan that is produced, a certain amount (sometimes set at 18 yuan) will be set aside as wages. If the number of staff and workers remains the same, and output value increases by a certain amount, the growth rate for productivity of the entire labor force which is based upon output value will also increase by that amount. Thus equal growth rates for wages and productivity are in effect. In the contents of wage contracts are not fully guaranteed, when output value decreases (and productivity decreases correspondingly), wages will also fall but there will be absolutely no effect on total accumulation for the entire society. Therefore, this method can be said to be a breakthrough. In fact this "red-headed" [important] document has determined that the growth rate for wages shall not necessarily be lower than that for productivity, and that the two rates can proceed along at the same pace. This is of great significance to future plans for designing wage increases.

As far as the overall society is concerned, growth rates for wages and productivity can remain the same or nearly the same. The main premise for this is: the growth rate for productivity of the entire labor force which is based on output value, includes materialized labor, wages and accumulation (taxes and profits). Generally speaking, if the productivity rate increases and wages are not increased, or are just increased slightly, this means that

not only has the rate of accumulation gone up in terms of absolute numbers, but also in terms of the proportion it occupies in the production output value. If wages and productivity increase at the same rate, that means that the wages of workers and staff and accumulation have increased at the same proportion (to each other). This will by no means decrease the amount of accumulation or reduce the proportion it occupies. One can imagine it this way in real practice: when statistics for a certain fiscal year reveal a higher growth rate for productivity, and a lower rate of growth for wages, the rate for wages can be promptly increased, or compensated for in the following year. For example, the overall rate of productivity for the Guangzhou area in 1983 increased 10.94 percent compared to the year before, but the average wage paid in money increased by only 5.63 percent. The actual average wage increased by 4.58 percent. If we had proceeded according to the above principle, it would have been completely within reason to promptly increase the growth rate of wages.

The overall rate of productivity discussed above refers generally to the entire country. Can we determine the rate of growth for wages in different areas where productivity rates are different? I believe we can. If we end egalitarianism among regions and allow a higher growth rate for wages in regions where the increase in productivity is higher, it could arouse enthusiasm in all the regions, and would enable the economy of the whole nation to develop. Special economic zones and open coastal cities can determine wage growth according to their own economic development and increase in productivity. Even if wages in these areas increase faster than the average, it should be permitted. However, rigidity and uniformity must be avoided in the implementation of this principle. Because in less advanced areas rates of labor productivity have a low base to begin with, increases may be great. If wage increases are completely decided by the amount of increase of productivity, wages in the less advanced areas may increase more quickly than in advanced areas, which, of course, would not be reasonable. Therefore, the state should appropriately adjust the growth rate for wages in all regions to achieve the fairest results.

Equal growth rates for wages and productivity can be applied to the general situation. In certain particular situations the rate of increase in wages may be slightly lower than that of productivity. It would be reasonable to slow down the speed of wage increase and allow for a bit more accumulation once wages have reached a fairly high level. But at present wages are low, and increases are small. Plus money wages were not appropriately raised after the increase in prices. Therefore, for a period of time increases in wages should not generally be lower than increases in productivity. In the wage reform that will soon be implemented, the amount of wage increases should be larger than usual. There are precedents for this abroad: In Yugoslavia the average rate of increase in productivity from 1970 to 1977 was 2.2 percent per year, but wages increased by 16.2 percent. In France from 1970 to 1977 national labor productivity increased by 14 percent each year, while wages increased by 15.1 percent (see "Summary of World Economic Statistics").

Guangzhou should be regarded as a special situation in the reform of the wage system that will soon go into effect, and be allowed to raise wages considerably. This is because commodity prices in Guangzhou have increased by a large amount. The retail price index in 1983 was 26 percent higher than that of 1978, which was twice the 12.81-percent increase nationwide. Commodity prices in nearby Shenzhen are similar to Guangzhou's, but wages there are approximately twice as high. Wage income for large numbers of lower and middle-grade workers and staff in Guangzhou cannot be compared with that of suburban peasants, and is far lower than that of self-employed households. Many cases have shown that it is difficult to continuously arouse production enthusiasm by relying solely on the reform of wage distribution methods. Over the last few years, many enterprises in Guangzhou have been constantly studying and reforming the system of wage distribution, such as changing fixed wages to sliding wages, piece-work wages, retaining a portion of profits, labor contracts, and soon. One cannot say that no results were achieved from this, but it has been difficult to maintain enthusiasm. What was the reason? After a serious analysis reasons could be found relating to ideological work, systems of management and so on, but it cannot be denied that the level of wages was a major factor. Therefore, in order to give full play to wages as an economic lever, both a reform in the distribution of wages and an increase in the level of wage are necessary.

12221/12948

CSO: 4006/21

TRANSPORTATION

MINISTRY NOTICE: THE PEOPLE'S REPUBLIC OF CHINA

Beijing, XHONGSUO JIAOTONG BAO (in Chinese) 24.11.85

Article: "Ministry of Communications Issues Urgent Notice to All Departments: Take Immediate Steps to Reverse Rapidly Escalating Road Traffic Accidents"

[Text] The Ministry of Communications issued an urgent notice on 11 July 1985, asking traffic departments at all levels to take immediate steps to reverse the trend of rapidly escalating road traffic accidents, which are responsible for the people's lives and property. The notice pointed out that the trend of road traffic accidents is rapidly reversing the trend of rapid escalation.

The notice said that the number of traffic accidents, deaths, injuries and direct economic losses which occurred in the first quarter of 1985 increased 60 percent, 51.5 percent, 60.67 percent and 107.23 percent, respectively, over that of the same period of 1984. This is a serious problem which has never occurred before. Second quarter conditions did not improve and especially serious traffic accidents continued to occur, particularly, resulting in serious losses to the people's lives and property.

The notice pointed out that the most serious way traffic accidents are increasing now is that leading comrades of some traffic departments have misunderstood the Central Committee's policy of "liberalization and invigoration." They have neither analyzed nor solved the new problems which have occurred under new conditions nor asked local party committees and governments for instructions on how to take steps to improve traffic management. Some traffic supervision organs have not used their major forces to stress accident-prevention work on the roads and in units which have vehicles. In handling traffic accidents, they have overstressed economic compensation to settle cases and paid less attention to investigating and affixing the criminal responsibility of those who commit crimes by causing deaths and injuries such as unlicensed drivers and those who drive unlicensed vehicles on the roads.

In order to quickly reverse the present serious situation of many traffic accidents and much disorder, the notice asked traffic departments at all levels to do a conscientious job of the following work:

--Improving the leadership of traffic safety work: Leaders must indulge in less idle talk and act more according to the facts, handle things

personally, organize their forces immediately and concentrate for a period of time on carrying out conscientious interventions of traffic safety in their local areas. Faced with problems, they must suggest feasible solutions, rely on the leadership of party committees and governments at all levels, cooperate with concerned departments and reduce traffic accidents.

--Using various publicity methods fully and launching widespread safety education publicity: Traffic departments must stress graphic publicity methods, such as movie and television traffic films and kitchen window and photo exhibitions, and ask local newspapers, radio and television stations to improve publicity and reporting on traffic safety.

--Enforcing traffic management and dealing strictly with violations: Based on 1984 National Traffic Safety Work Conference requirements, no fewer than two-thirds of traffic supervision personnel must be regularly on the roads and in all units that have vehicles. They must improve road inspections, prevent breaking of traffic regulations, standardize vehicle motor vehicle technical conditions and not permit vehicles with poor technical performance or unlicensed vehicles to be on the road. Moreover, they must conscientiously clear up major accidents within a short time. In addition to strengthening economic compensation by those who commit crime, they must also reduce deaths and injuries through driving illegally, they must also coordinate security and judicial departments to investigate and affix criminal responsibility and not be overlenient.

--Reorganizing traffic order and eliminating all roadblocks: Traffic departments must cooperate closely with concerned departments such as public security and industrial and commercial administration and management in order to conscientiously eliminate all roadblocks strictly according to the requirements of the 1983 "State Council Notice On Improving Road Administration and Management and Ensuring that Roads Are Safe and Open." They must firmly curb the threshing and drying of grain on roads, remove agricultural trade markets from roads, dismantle all illegal construction which affects traffic safety and strictly prevent the stacking of things on roads and all illegal operations. Those who damage any road facilities must be investigated conscientiously and dealt with strictly.

--Improving safety management for individual and jointly run specialized transportation households: Traffic departments must divide all motor vehicle drivers in individual and jointly run specialized transportation households who participate in highway transportation into joint safety groups, formulate safe driving pledges and carry out safety activities and education regularly.

12267/12955
CSO: 4006/34

FAILURE TO OBSERVE TRAFFIC LAWS RAISING CASUALTIES

Beijing ZHONGGUO JIAOTONG BAO in Chinese 24 Jul 85 p 1

[Article: "Violating Traffic Regulations Results in Death and Serious Injury; Log of Accidents on Expressways and Highways in the Second Quarter of the Year"]

[Text] For a variety of reasons and especially because some drivers in provinces such as Yunnan, Sichuan, Jiangsu, Shaanxi, Gansu, Henan and Fujian violated traffic regulations seriously, certain major traffic accidents which caused heavy harm to the people's lives and property occurred on the roads during the second quarter of 1985. Tractor drivers failing to comply with regulations caused many accidents.

On 4 April, Bao Guoshun [0545 0948 7311], a tractor driver from the town of Zhengxing in Yunnan Province's Jinggu County, drove a privately owned unlicensed Model 12 "Gold Horse" walking tractor improperly, carried 26 passengers illegally and overturned on a hillside on a section of the Nan-Pu Road, causing 3 deaths and major and minor injuries to 20 people. On 13 April, Tan Jizhong [6223 0679 1813], a tractor driver from the town of Tonghe in Sichuan Province's Zhongxian County, drove a privately owned truck illegally and improperly and overturned down a hillside on a curve on a section of the Wu-Pu Road, killing 3 people and causing major and minor injuries to 10 others. On 9 June, He Lianzong [0149 6647 1350], a tractor driver from the town of Mapu in Fujian Province's Yunxiao County, drove a large tractor transporting flue-cured tobacco with passengers and goods loaded recklessly and the driver's cab overloaded with 8 people and overturned en route into a deep ravine, killing 5 people and injuring 2.

Illegal and dangerous driving and illegal passing resulted in major accidents. On 13 May, Zhang Yuzhuo [1728 3768 3820], a driver for the Pingliang Transportation Co in Gansu Province, passed a truck illegally while driving a bus on a downhill curve on the Baoji to Pingliang Road, caused a 2-vehicle collision and overturned down a hillside and into a ditch, killing 4 people, injuring 14 seriously and 28 slightly and damaging the vehicles seriously. On 19 April, Shen Ru [3088 1172], a driver for the Huiping Ceramics Plant in Jiangsu Province's Qidong County, drove a truck with defective brakes. En route, in spite of oncoming cars, he passed dangerously a large bus which had stopped by the road to have a tire changed. Since the interval was too small, when passing through, he hit and killed the bus driver and three passengers who were helping to change the tire and injured six others.

12267/12955
CSO: 4006/34

CAUSES OF STRAINED TRANSPORTATION SITUATION ANALYZED

Beijing ZHONGGUO JIAOTONG BAO in Chinese 3 Aug 85 p 2

[Article by Yao Yashan [1202 0068 1472], assistant research fellow for the State Economic Commission's Comprehensive Transportation Research Institute: "Causes of China's Strained Communications and Transportation Situation Analyzed"]

[Text] (Editor's Note: It is common knowledge that China's present overall strained communications and transportation situation and the increasing prominence of contradictions in our transport capacity and volume have become weak links blocking national economic development. What exactly are the causes of this strained communications and transportation situation? The five major causes analyzed in this article by Yao Yashan may enlighten the readers. This newspaper welcomes constructive suggestions on this problem from our many readers, expressing their viewpoints and opinions.)

The capacity of one-quarter of China's existing railways and one-third of our major marshalling stations is now saturated and the handling capacity of our coastal ports is seriously inadequate, with the number of ships waiting to be loaded and unloaded being, on average, twice as many as those in operation. Energy resources and passenger transportation are both very strained, coal is piled up and waiting to be shipped and travelers have problems buying tickets, with there often being 30 percent, and sometimes as many as 70 to 80 percent, more travelers than vehicles and ships to transport them.

This situation forms a clear contrast with that in certain economically developed countries where communications and transportation lines are open (vehicle, ship and berth equipment are generally of a definite quality and are able to transport passengers and freight promptly). Although situations and conditions vary, a certain amount of enlightenment and lessons can be obtained from a comparative analysis.

1. China's economic structure is different, forming a situation in which the goods turnover volume produced per unit of gross national product (GNP) is quite large.

Certain statistics show that industry accounts for the largest part of China's GNP and service industries account for the smallest. The freight transport volume of industry is large and that of service industries very small. Consequently, this has created a situation in which the goods turnover volume produced per unit of GNP is also large.

2. China's transportation investment is small and our transportation network thin. With a very large transportation volume, contradictions in transport capacity and volume have thus become even more prominent.

China's transportation network foundation was originally quite poor and our transportation investment since the founding of the PRC has been quite small. Whereas passenger and freight transport have increased dozens of times, the overall length of our transportation network has only increased sixfold. Thus, increasing greatly the load intensity of the transportation network, not to speak of transport strength reserves and strategic reserves, has created a strained transportation situation.

In addition, China's transportation line technology is also quite backward.

3. China's transportation structure has long been irrational, with the percentage of passenger and freight turnover volume assumed by railways being largest whether compared to all domestic forms of transportation or to that of certain other countries as shown in the tables.

Table 1. Freight Turnover Volume for Various Forms of Transportation (%)

<u>Country</u>	<u>Railway</u>	<u>Highway</u>	<u>Waterway</u>	<u>Pipeline</u>
China (1982)	66	10	18	5
U. S. (1982)	31	18	31	19
Japan (1980)	9	41	50	--
India (1976)	63	33	4	--
Brazil (1981)	23	60	13	3

Table 2. Passenger Turnover Volume for Various Forms of Transportation (%)

<u>Country</u>	<u>Railway</u>	<u>Highway</u>	<u>Waterway</u>	<u>Airline</u>
China (1982)	57	35	5	2
U. S. (1982)	1	85	--	14
Japan (1980)	26	68	1	5
India (1976)	41	58	--	1
Brazil (1981)	3	95	--	2

The irrational division of labor between all forms of transportation is also linked closely to the fact that transportation price relations are irrational. Generally speaking, China's railway freight transport prices are low and those of highways high. Railway and water transport price relations are

irrational, resulting in certain goods being shipped by land instead of water and by rail instead of highway, hindering the full use of water transport and also being very detrimental to highway transportation development. Although transportation prices were readjusted somewhat on 1 December 1983, solving some outstanding problems, railway, waterway and highway transportation price relations will still have to be readjusted in a planned way in the future.

4. China's railway locomotive and freight car quantities are inadequate and our technical conditions poor, thus aggravating the strained transportation situation.

China's railway freight car deficiency has now become an intense problem, with our output over the past few years having only been about 10,000 cars a year. Counting the useful life-span of a freight car as 30 years, 8,000 cars a year will be needed for freight car replacement alone, and if freight transport volume is increased 5 percent a year, more than 10,000 additional new cars a year will be needed, for a combined total of nearly 20,000 cars a year. This is twice the existing production volume. Moreover, our present railway freight car turnover time is 3 days and our use efficiency is much higher than that of certain countries abroad (approximately 20 days in the United States). This is favorable from the viewpoint of railway management, but from that of users and socioeconomic efficiency, it extends goods allocation and transport and fund turnover time since goods must wait for empty cars in order to be shipped. Generally speaking, the loss sometimes outweighs the gain in this situation.

In the area of transportation technology equipment standards, China's degree of internal-combustion and electric railway traction is low and most of our highway transport motor vehicle models are obsolete.

5. China also has deficiencies in the area of pretransport in-depth processing of products in order to reduce unnecessary transportation, with the contrast for coal and wood, for example, being as follows.

--China's coal transport volume is large, and essential pretransport raw coal processing is an important way to reduce unnecessary transportation.

It is reported that raw coal processing in the Soviet Union reduces transport volume by 20-25 million tons a year and that reducing the water and rock content of raw coal frees 200,000 railway cars a year for other uses.

--As to wood, a lot of logs in the United States are only shipped a short distance (an average of 93 km), while wood products and boards are shipped long distances only after processing, which is often done close to logging sites. Semifinished products and boards being processed first in the vicinity of logging sites before being shipped out can thus reduce transport load greatly.

12267/12955

CSO: 4006/37

TRANSPORTATION

MAINTAINING HIGHWAY SECURITY STRESSED

Beijing ZHONGGUO JIAOTONG BAO in Chinese 24 Jul 85 p 1

[Commentary: "Crack Down on Crime and Maintain Highway Security"]

[Text] The two news items published in this paper today on the poor highway traffic security conditions in Hunan Province and the Communications Ministry's notice on reversing the increase in traffic accidents should be brought to the attention of all areas.

Highway traffic security is a major aspect of urban and rural public order. Over the past 2 years, highway traffic security defense departments have done a lot of work and made great achievements in such areas as cracking down on serious crime, maintaining highway security and order and ensuring the safe transportation of passengers and goods. Security conditions have improved at some major bus stops and on some main highways and the masses have acquired a definite sense of security.

But security conditions are still not very good at a few key bus stations and on certain sections of a few main highways and cases of stealing, robbing and looting as well as damaging of roads have occurred now and then, affecting communications and transportation and harming the vital interests of the state and many travelers.

At present, highway transportation is flourishing and the work of highway traffic security defense departments in improving highway traffic security is quite difficult. When there is a lot of work and difficult duties, it is necessary to stress priorities. We must continue to improve highway traffic security and security management. At bus stations and on key sections of highways where there are many security problems, a large passenger flow and poor order, we must concentrate our time and energy on improving security and set deadlines for change. We must continue to launch thorough activities to crack down on and deal with serious crime severely and quickly according to law, enabling staff members, workers and travelers to have a sense of security. We must carry out all comprehensive administrative measures conscientiously, develop regular legal system publicity and education and enable all staff members and workers to know and observe the law. We must do a conscientious job of the work of helping to teach people in our units who have broken the law and committed crimes. We must bring guard work to the

fore, do our best to prevent the possible occurrence of bad accidents, continue to stress building highway traffic security organs and the cadre and police ranks and set up strong grassroots security organs both at major bus stops and on main highway management sections. We must educate the people's police in ideals, the legal system, discipline and service to the people and improve their political ideology and professional quality in order to enable them to adapt to work needs.

Highway traffic security being a major aspect of public order determines that improving highway traffic security will be a long-range and complex task. We must not relax our efforts because we think that the improvements have been accomplished or that there are not many problems, but must persist in making regular improvements, strengthening management and taking effective steps to ensure that highway traffic transportation is safe and unimpeded, security and order are good and clear improvements are realized in highway security conditions.

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CSO: 4006/34

HUNAN HIGHWAY SECURITY IMPROVEMENTS STRESSED

Beijing ZHONGGUO JIAOTONG BAO in Chinese 24 Jul 85 p 1

[Article: "Hunan Highway Traffic Security Needs Improvement Urgently; Criminal Cases such as Stealing and Looting Continue To Occur, Damage to Highway Facilities Is Serious and Over 1,000 Incidents of Attacks on Conductors and Road Maintenance Workers Have Occurred"]

[Text] The reporter has learned from the Communications Ministry's Security Office that Hunan Province's current highway traffic security is in considerable chaos and that all kinds of criminal cases and traffic accidents continue to occur. This has been denounced by all areas of society and has affected the prestige of highway transportation.

The following are outstanding problems in Hunan Province's highway traffic security. First, bus station security has been chaotic. From 1984 to the first quarter of 1985, over 1,400 criminal cases of stealing, looting and gangsterism have occurred. Second, incidents of looting and stealing of goods and materials which are being transported and felling of trees along roads have been quite alarming. From January 1984 to the end of March 1985, over 1,000 such cases have occurred. Almost all of the trees on both sides of some main provincial highways have been cut down. Third, stealing and damaging of highway facilities has been serious and has endangered driving safety. During the first quarter of 1985, 2,237 road signs were stolen or damaged throughout Hunan. At a curve on the main highway between Zhuzhou and Liling where the public railroad crosses a bridge over a small embankment, warning signs were set up and destroyed three times, resulting in three successive major accidents in 1984 of cars overturning and people being killed, the Beijing-Guangzhou Railroad being shut down three times and economic damage of 150,000 yuan. Fourth, incidents of attacks on conductors and road maintenance workers have been prominent. From January 1984 to the first quarter of 1985, over 1,000 incidents of attacks on staff members and workers which injured over 1,140 people have occurred throughout Hunan. Unreasonable attacks on highway staff members and workers not being solved promptly has affected the regular conduct of highway transportation. Fifth, vehicle ferry security has been chaotic. According to statistics from 28 ferries for January 1984 to the first quarter of 1985, 150 accidents which killed 35 people occurred because of illegal ferry crossings. Sixth, setting up of stalls, illegal construction, digging of ditches and setting up of roadblocks

on highways can be found everywhere, with 2,860 km of highways having been nibbled at. During the first quarter of 1985 alone, 2,322 traffic accidents which killed 458 people occurred because of roadblocks.

The major reason why Hunan Province's highway traffic security is chaotic is that special organizations to handle security work are lacking. Hunan Province has decided to organize and set up highway traffic security organizations throughout the province, to take bus stations and main highways as priorities and to organize its forces to stress vigorous improvement of highway traffic security. Hunan should improve security management, develop overall administration, reverse as quickly as possible the current poor condition of traffic security and strive to realize basic improvements in highway traffic security within a year or two.

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CSO: 4006/34

TRANSPORTATION

TRANSPORTATION DEVELOPMENT IN SHENZHEN SPOTLIGHTED

Beijing ZHONGGUO JIAOTONG BAO in Chinese 7 Aug 85 p 2

[Article by Lei Lichu [7191 0448 0443]: "What Is the Speed of Transportation Development in the Special Economic Zones? -- Please See Figures from Shenzhen"]

[Text] The speed of transportation development in Shenzhen is amazing.

1. Average per-capita ownership of the number of vehicles now ranks first in the country. Today, the municipality already owns more than 21,000 various mechanized vehicles, representing a 20-fold increase compared to the days before the establishment of the special economic zone in 1979, with every 40 persons owning a cargo or passenger transportation vehicle, on the average.

2. In highway construction, not only is the pace rapid, but quality is also good. Within the 30 sq km of the Shenzhen City, more than 190 km of highways have been constructed, thus forming a transportation network leading in all directions to places like Hong Kong, Fujian, Jiangxi and Guangdong, with Shenzhen as the center.

3. Oceanic transportation has likewise developed rapidly. Shenzhen now owns 26 freight vessels, with a 180-fold increase in transport capacity compared to 1979; of this, its annual freight transportation volume has already reached 400,000 tons, a 19-fold increase compared with 1979. There are at the wharf already three berths for vessels of 10,000 tons and up, and four for those of 5,000 tons; traffic routes have been opened from Shenzhen to over 20 large ports such as Shanghai, Tianjin, Dalian domestically, and from Shenzhen to 13 countries and regions such as the United States, Australia, Singapore, Thailand and Norway.

4. It has established an oceanic helicopter company to provide services to the exploitation of the Hainan oil fields and air tourism within the municipality. Luohu now has an international trade building 53 stories high; it is not only the center for Shenzhen to launch its foreign trade, but also capable of accommodating helicopters on its roof to serve air tourism.

5. As for railroads, the Shenzhen Special Economic Zone transported 10 million Hong Kong and overseas passengers in 1984, a 5.5-fold increase compared with 1979.

TRANSPORTATION

NEI MONGGOL PLANS TO BUILD 12 MAIN HIGHWAYS

Beijing ZHONGGUO JIAOTONG BAO in Chinese 28 Aug 85 p 1

[Article by reporters Cheng Xiao [4453 1321] and Li Yongmei [2621 0737 2734]:
"Nei Monggol Will Build 12 Main Highways Totaling More than 1,900 Km in
Length"]

[Text] Nei Monggol Autonomous Region will build 12 main highways totaling more than 1,900 km in length during the Seventh 5-Year Plan period. After being put into operation, these highways will play a tremendous role in promoting energy economy and developing the pastoral areas and foreign trade.

Situated on the northern border, Nei Monggol occupies more than one-ninth of the territory of the motherland while its highways only account for one-twentyfifth of the total mileage nationwide. The small number of substandard and poor-quality highways has held back economic development in the autonomous region.

Of the 12 main highways to be built during the Seventh 5-Year Plan period, the highway from Yakeshi in the central part of the Hulun Buir grassland to Jalaid Nuier is skirted by the Da Hinggan Ling forestry bases and the Dayan, Baori Xile, Jalais Nuoer and Yimin coal mines. From Hailar moving westward, it can reach the border port city of Manzhouli by way of Jalaid Nuoer. The construction of the Yakeshi-Jalaid Nuoer highway will promote the development of coal, electric, forestry and animal husbandry industries along the line and also the development of foreign trade.

At the moment, the people in various parts of Nei Monggol are building county-level highways in very high spirits by making use of grain, cotton and cloth as remuneration. It is expected that more than 500 km of Class III highways and 2,900 km of Class IV highways will be added to this region this year.

12662/12790
CSO: 4006/98

TRANSPORTATION

PROGRESS REPORT ON HIGHWAY, BRIDGE CONSTRUCTION

Beijing ZHONGGUO JIAOTONG BAO in Chinese 27 Jul 85 p 1

[Article: "Ministry of Communications and Transportation Notice on Certain Construction Projects Characterizes Highway Construction As Encouraging"]

[Text] China's highway construction situation is now very good. The Communications Ministry's Highway Office issued a notice on 8 July on the condition of highway construction projects during the first half of 1985.

Qinghai-Xizang Highway: The Communications Ministry sent a work group in May to travel along the Qinghai-Xizang Highway, which is now being rebuilt, to inspect the rate of progress of the project and preparations for checking before acceptance. The project is now progressing well, with the main part scheduled to be finished in July and checked and accepted by the State Planning Commission in August.

Shayang Han River Bridge: At 1,818.5 m long, this is the longest continuous span bridge in China. Construction was finished and checked before acceptance by the end of June and the opening ceremony was held on 1 July.

Shugang Highway: The construction pace of the Tianjin-Shugang Highway was accelerated in 1985 with the support of all sides, and construction conditions were quite good from January to June, but the pace of some bridge construction is still considerably slower than planned. The No 1 Engineering Department of the Communications Ministry's No 1 Highway Engineering Office which is responsible for the construction is mobilizing its staff members and workers to strive to finish the Shugang Highway by "1 October."

Harbin Songhua River Bridge: Since the start of construction in 1985, the rate of progress on the top part of the T-suspension-cast project has been slow. Construction units are using advanced technology to accelerate the rate of progress of the suspension casting, and the box-beam casting has now broken through a major planned 10-day construction period barrier.

Zhengzhou Huang He Bridge

The 5,550-m Zhengzhou-Huang He Bridge which is under construction is now China's longest highway bridge. A total of 288 foundation piles have been driven and it is expected to be finished by October or the end of 1986.

Shanghai-Jiading Expressway: Progress in the work of tearing down and removing houses has gone smoothly and is now basically finished.

Guangdong 107 Highway: The Guangdong Province Communications Department recently sent two work groups led by the deputy department chief to thoroughly inspect the double-stage highway rebuilding project of National Highway 107 and the Guangzhou-Zhuhai Highway and discovered that the roadbed construction quality was poor. The inspection groups ordered individual construction units to stop work and improve it.

12267/12955

CSO: 4006/37

TRANSPORTATION

RECONSTRUCTION OF QINGHAI-XIZANG HIGHWAY

Longest Highway On Tibetan Plateau

Beijing ZHONGGUO JIAOTONG BAO in Chinese 28 Aug 25 85 p 1

[Article by special correspondents Zhang Hua [1728 5476], Xu Yongqing [1776 3057 7230] and reporters Li Yanyi [2621 1750 0001], Feng Shiming [5646 6108 6900]: "Qinghai-Xizang Highway Reconstruction Project Passes State Inspection for Acceptance; China Completes the Longest Class II Highway on the Plateau; Black Road Surface Is Paved on a Large Scale in the Permafrost Zone on the Plateau for the First Time; Engineering Quality is Excellent"]

[Text] The reconstruction of most of the 1,937-km-long Qinghai-Xizang Highway that spans the "roof of the world" has been completed based on Class II highway standards; the State Inspection Commission signed the inspection-acceptance certificate the afternoon of 26 August.

The Qinghai-Xizang highway starts from Xining City of Qinghai Province and terminates at Lhasa, capital of the Xizang Autonomous Region, via Golmud City. It crosses over eight big mountains including the misty Kunlun and the towering Tanggula Mountains along the way. The entire line averages close to 4,000 m above sea level, with the highest point at 5,231 m above sea level, called by foreign explorers as a "forbidden zone to human life." To develop the communication between Qinghai and Xizang, army of highway builders composed of the First Armed Police Communication Corps (formerly the communication unit of the Capital Construction Engineers Corps) and more than 20,000 people from Qinghai and Xizang braved winds, snowstorms and bitter cold and put up with hardships from several years to as long as 12 years on the plateau; they excavated nearly 20 million cu m of earth and stone work and completed the biggest highway reconstruction project with the largest investment in our country. In the process, more than 190 fighters, workers and civilian workers lost their lives. The Qinghai-Xizang highway reconstruction project can be described as a solemn and stirring painting depicting men conquering nature.

Owing to the enormous amount of heat absorbed by the black road surface, the heat balance in the frozen earth is destroyed over a period of years, thereby causing the roadbed to settle as a result of melting by heat. There is no record of successful paving of black road surfaces in permafrost zones on plateaus in the annals of highway construction in the world today. The paving of the

black road surface of the 560-km section of the Qinghai-Xizang highway has filled a blank spot in our country's construction techniques.

The Qinghai-Xizang highway after reconstruction will take care of 80 percent of Xizang-bound goods and materials. It is estimated that by the year 2000, this highway will be able to transport more than 500,000 tons of Xizang-bound goods and materials annually and can fully satisfy the needs of Xizang's economic development and construction. Moreover, with road conditions improved, driving speed will be increased and vehicle turnaround time is expected to be shortened by 45 percent and fuel consumption reduced by 10 percent. These two items alone will mean an annual saving of more than 50 million yuan in transport cost.

In the year 15 during the reign of Zhenguang [6297 0342] of the Tang Dynasty (641 B.C.), Princess Wen Cheng [2429 2052] trod the Tangfan [0781 5603] ancient path on her way into Xizang, the prelude to communication between Qinghai and Xizang. In 1943, northwestern warlord Ma Bufang [7456 2975 5364] organized the construction of a section of the Qinghai-Xizang highway from Xining to Huanghe, but the colorful procession soon got bogged down in the mud after the traffic-opening ceremony. After the founding of new China, the Chinese PLA and the people of all nationalities completed the simple highway from Xining to Lhasa in only 7 months. Today, a high-standard asphalt road has appeared on the Qinghai-Xizang plateau. History has taken a giant step forward after more than 1,300 years.

Attending the inspection-acceptance signing ceremony on 26 August were: Wang Deying [3769 1795 3841], chairman of the state inspection commission of the Qinghai-Xizang highway and vice minister of the State Planning Commission; other vice chairmen were: Wang Zhanyi [3769 1455 1942], vice minister of communications; Jiang Cuo [3068 2238], vice chairman of the Xizang Autonomous Region; Wu Chengzhi [0702 2110 1807], vice governor of Qinghai Province; and Li Lun [2621 0243], director of the Military Communications Department of the General Logistics Department. Another 15 members also affixed their signatures on the inspection-acceptance certificate. Also attending the signing ceremony were: Ngapoi Ngawang Jigmi, vice chairman of the NPC; Pagbalha Celeg Namgya, vice chairman of the CPPCC National Committee; Wu Jinghua [0124 4737 5478], first secretary of the Xizang Autonomous Regional CPC Committee; Redi: Duojiecaidan, chairman of the Xizang Autonomous Region; and Langjie [2597 2638], Sheng Qia [3932 2953] and Luosang Jianzan [3157 2718 1017 6363] chairmen of the standing committee of the Xizang Autonomous Regional People's Congress.

Editorial Praises Highway

Beijing ZHONGGUO JIAOTONG BAO in Chinese 28 Aug 85 p 1

[Editorial: "A Victory for Policy Decision and Science--Greeting the Overall Completion of the Qinghai-Xizang Highway Reconstruction Project"]

[Text] The reconstruction of the 1,937-km-long Qinghai-Xizang highway has been triumphantly completed. To achieve this victory, the heroic commanders and fighters of the Armed Police Communications Unit, comrades of the Xizang and

Qinghai communications departments and roadbuilders, engineers and technicians of Tibetan and Han nationalities had struggled for more than 10 springs and winters at the "roof of the world" and paved a road to happiness with their lives and sweat for the Tibetan people. We warmly congratulate the overall completion of this highway and extend our highest respects and sincere regards to the highway builders.

The completion and opening to traffic of the Qinghai-Xizang highway in 1954 ended the Xizang's long isolation from the hinterland. However, the main section of this highway was substandard with numerous trouble spots, and its ability to handle passing vehicles was inadequate, and the highway as a whole could not cope with the needs of national defense construction and Xizang's economic development. In 1974, the state decided to completely reconstruct the southern section of the Qinghai-Xizang highway based on Class II highway technical standards and listed this project as a key project under the Sixth 5-Year Plan. With the road surface of the entire line now paved with asphalt, driving can be done faster and more comfortably, ensuring safety and convenience in transport. The peak traffic volume for a 24-hour period from Golmud to Lhasa last year totaled 3,000 vehicles, with the average driving speed of these vehicles having increased from 20 km to 60 km per hour. It is estimated that by the year 2000, it will be able to transport more than 500,000 tons of Xizang-bound goods and materials annually, can shorten the vehicle turnaround time by 45 percent and save more than 50 million yuan in transportation costs annually. This has amply demonstrated that the reconstruction of this highway is a correct and timely policy decision made by the state and is of great significance in consolidating our national defense, strengthening the unity of various nationalities, promoting the development of industrial and agricultural production in Xizang and invigorating its economy.

The main section of the Qinghai-Xizang highway reconstruction project was called by contemporary foreign explorers as a "forbidden zone to human life." There are no precedents either at home or abroad of paving large tracts of road surface with asphalt in areas of perennial frozen earth high above sea level and at low latitude. The large numbers of technical personnel engaged in scientific research, designing and construction pressed forward in the face of difficulties, bravely shouldered heavy burdens and tackled key problems with concerted efforts. Overcoming the mounting hardships brought about by the adverse working and living conditions on the plateau, they insisted on conducting on-the-spot investigation and study penetratingly and put forth reports on achievements in scientific research and proposals totaling about 200,000 words based on the results of different stages of research. They also made revisions and supplementary designs of major stages on nearly 10 occasions. These scientific achievements and documents on designs provided the scientific basis for the construction and constitute a rich experience for highway construction on the plateau from now on, having become the precious treasures of highway construction circles in our country. The victory of the Qinghai-Xizang highway reconstruction project is a victory for policy decision and also a victory for science.

The Qinghai-Xizang highway is a plateau highway at the highest altitude above sea level with the longest mileage and relatively high standard in the world.

In this sense, it can be called a pioneering undertaking in the history of highway construction in the world. It is also a monument in the annals of highway construction in our country, which not only recorded the great achievements of the people of all nationalities of our country but will also forever inspire the people of the whole country to open up new roads with great confidence. In celebrating the completion of the Qinghai-Xizang highway reconstruction project, we, the broad masses of workers and staff members of our transport system must carry forward the spirit of patriotism, the dauntless revolutionary spirit and the scientific spirit and struggle indefatigable to realize modernization of communication and transport!

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TRANSPORTATION

BRIEFS

COMMUNICATIONS DEPARTMENT PLANS FULFILLED--This reporter has learned from the parties concerned that the major production targets of communications departments throughout China for the first half of 1985 have been fulfilled, with all departments having fulfilled over half of their plans in half of the year. During the first half of 1985, motor vehicles, steamships and barges of communications departments throughout China fulfilled 54.8 percent of their planned annual passenger transport volume and 50.2 percent of their planned annual freight transport volume and major coastal ports fulfilled 54.3 percent of their planned annual handling capacity. With the scope of capital construction restricted severely by state required targets, 28 large and medium-sized construction projects fulfilled 50 percent of their planned annual investment and of this, key national construction projects fulfilled 54 percent of their planned annual investment. During the first half of 1985, the problem of ship and port control in major coastal ports remained serious, with some ports experiencing traffic jams. The highest number of ships in port during a day in June exceeded normal port operation figures more than twofold. The anchorage time of foreign trading ships in port increased more than a day over the same period in 1984. During the first half of 1985, the number of traffic accidents also increased over the same period in 1984. An average of over 1,000 cargo ship accidents occurred throughout China, causing almost 20 ships to sink and over 200 casualties, while major highway traffic accidents continued to occur. Concerned departments are taking steps to resolve these problems. [Text] [Beijing ZHONGGUO JIAOTONG BAO in Chinese 3 Aug 85 p 1] 12267/12955

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PUBLICATIONS

BRIEFS

DONGBEI JINGJI BAO INAUGURATED--A forum for starting publication of DONGBEI JINGJI BAO [NORTHEAST ECONOMIC PAPER] was held in Shenyang, Liaoning Province, on the morning of 9 October. DONGBEI JINGJI BAO was jointly established by the Heilongjiang, Jilin, and Liaoning Provincial and Nei Monggol Autonomous Regional People's Governments and with the initiative of the Northeast Economic Area Planning Office under the State Council. [Excerpt] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 9 Oct 85]

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HONG KONG MEDIA ON CHINA

GUILIN ESTABLISHES NEW AIRLINE COMPANY

Hong Kong WEN WEI PO in Chinese 2 Oct 85 p 8

[Special dispatch by Li Shizheng [7812 1102 2973]: "Guilin Receives Permission To Set Up Airline Company To Keep Up with the Needs of Rapidly Growing Tourist Industry; an American Bank Proposes To Supply Three Passenger Planes As Investment"]

[Text] Guilin City has received permission to form an airline company of its own to improve Guilin's air traffic confestion; preparations are now being made to start the Guilin-Huiyang route along with the China Air Transport Service Co. Moreover the American Express Co has expressed interest in investing in Guilin City's airline company. Guilin Vice Mayor Li Jianhe [2621 1696 0735] disclosed the above recently in an interview with a Hong Kong reporter.

Li said that due to Guilin City's unique history and natural environment, the State Council and the autonomous regional government listed Guilin City as a scenic tourist city and officially opened it in 1973. Over the past 10 years or so, the number of domestic and foreign tourists increased 30 percent annually. Lasst year, 283,000 foreign tourists visited Guilin City, a 40 percent increase over 1983, while the number of domestic tourists totaled 3.6 million an increase of 30 percent over 1983. It is expected that the number of foreign tourists this year will reach 330,000 and the number of domestic tourists will total 4 million. Li said that since the number of tourists has increased progressively year after year, there has been no distinction between brisk and slack seasons in Guilin City for 2 years. However, since transport facilities cannot cope with the increase of tourists, the tourists often have to stay behind for several days. For this reason, Guilin City wanted to set up its own airline company to cope with the actual needs. It has recently received approval from the central authorities in regard to this matter. At present it is cooperating with the China Air Transport Combined Service because that company is jointly formed by the Chinese Air Force and the State Economic Commission and the Guilin City airfield has the potential to handle more takeoffs and landings of scheduled flights.

Furthermore, a deputy managing director of the American Express Co got in touch with Guilin City in July to express interest in investing in the air

transport business in that city. American Express will provide three new-type passenger planes and will undertake the training of pilots selected by Guilin and the investment in the passenger planes will be repaid to American Express on a percentage basis pegged to future profits. Talks regarding this matter are now under way.

Li also pointed out that the rapid development in the tourist industry has made Guilin City feel the lack of tourist facilities even more. Therefore Guilin City has energetically imported foreign capital to improve tourist facilities. The city signed 78 import contracts last year involving a total investment of more than 1.24 million yuan RMB and importing more than \$280 million in foreign capital. Of these contracts, 19 are for hotels with 8,000 beds, since Guilin City at present has just over 3,000 hotel beds. Construction of 9 of these projects has been officially started totaling more than 4,000 beds. It is expected that 5 hotels will be completed by the end of next year and they will provide more than 2,200 beds.

Li indicated that Guilin City's foreign exchange earnings last year amounted to more than \$12 million. It is expected to reach \$15 million this year, with each tourist spending an average of \$185; Japanese tourists rank first in spending, Hong Kong tourists second and American tourists third. However, since most Hong Kong tourists are combining business with pleasure in their travel, their spending cannot be placed at a par with that of other tourists.

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HONG KONG MEDIA ON CHINA

MINSHENG STEAMSHIP COMPANY REESTABLISHED

Hong Kong TA KUNG PAO in Chinese 2 Oct 85 p 2

[Article: "The Scene of One Hundred Barges Competing in Chang Jiang Shipping Reappears--Operations of Minsheng Steamship Co in Past Year Since Its Reestablishment"]

[Text] Chongqing--Special Dispatch, 1 October--The Minsheng Industrial Company Ltd, China's old-style privately-owned steamship company, was reestablished in Chongqing after having been closed down for nearly 30 years. One October this year marked the first anniversary of its reestablishment.

Scientific Methods of Management

A responsible person of the Minsheng Co told this reporter today that the company's business has developed very rapidly in the past year. By the end of September, the company had purchased or built 18 barges and 4 800-hp tugboats; another 2 1,200-hp tugboats will be put into operation by the end of this year. By then, Minsheng will have 12,300 tons in shipping.

This responsible person said that the Minsheng Co made a profit of more than 190,000 yuan RMB in the first 3 months after its reestablishment. The per capita profit of the company during the first half of this year amounted to 9,715 yuan and the targets of the annual profit plan are expected to be fulfilled.

The Minsheng Steamship Company was founded in 1925 by Lu Zuofu [4151 0155 1318], one of the four big industrialists in China. At the beginning, it had only one small steel-hulled passenger ship built with borrowed capital. By the 1950's, Minsheng's business had developed from the 50-nautical mile short-distance shipping between Chongqing and Hechuan from the very beginning to long-distance transportation to various ports along the China coast and various countries in Southeast Asia and Japan.

The first general manager of the reestablished Minsheng is Lu Tuji [4151 0956 4764], Lu Zuofu's son. Influenced by his father's ideal of national salvation through industry, Lu Tuji went to work in Sichuan's Tianfu coal mine immediately after graduating from the Central University in 1948. He was deputy chief engineer of the Chongqing Coal Industrial Co before he became general manager of the Minsheng Steamship Co.

Fast Cargo Transportation, High Quality

According to a well-informed person, for Minsheng to restore its good name in such a short time is inseparable from the company's adherence to scientific operations and management.

First of all, the company has adhered to the principle of service first and reputation above everything else, to the welcome of owners of cargo. Many cargo owners praised the fleets of the Minsheng Co for fast cargo transportation, high quality and minimum damage to cargo.

Various fleets of the Minsheng Co have kept on setting new records for speedy transportation over the past year. The Minsheng fleets in general take no more than 20 days to make a round trip between Chongqing and the mouth of the Chang Jiang while other fleets would take 40 to 50 days.

The Minsheng Co has not only achieved fairly good economic results in operations 1 year after its reestablishment but has also played a positive role in promoting Chang Jiang shipping. In the past, the state-owned fleets were the only "star performers" in the Chang Jiang but now a scene of 100 barges competing in sailing has emerged. In the past, Sichuan Province and Chongqing City every year had about 1 million tons of goods and materials piled up waiting to be shipped out of Sichuan, today these piled up goods and materials are being shipped out in a steady stream, the transport strain on the upper reaches of the Chang Jiang has been eased.

Minsheng's scope of business is expanding gradually. Besides setting up branch companies in Wuhan, Shanghai and other cities along the Chang Jiang, it has also set up offices in Beijing and Wuzhou.

Opening Up Business in Hong Kong

Touching on the company's recent developmental plan, this responsible person said: 1) The cargo fleets in Changjiang will continue to be strengthened and expanded to reach 30,000 tons by 1986; 2) a quality fleet of passenger boats and pleasure boats in Changjiang will be built and put into operation officially in 1987; 3) the sea transportation routes of the "old Minsheng" in the past will be restored as soon as possible and river-sea through transportation service will be resumed. He said, the Ministry of Communications has recently given official concurrence to the Minsheng Co's development of inshore shipping business. In the meantime, the Minsheng Co has also decided to develop business operations in Hong Kong by reusing its "Minsheng Industrial Co Ltd" registration.

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HONG KONG MEDIA ON CHINA

HONG KONG REPORTER VISITS BAOSHAN IRON PLANT

HK010723 Hong Kong TA KUNG PAO in Chinese 26, 27 Oct 85

[Article by reporter Chiao Huipiao [3542 1920 2871]: "A Visit to the Baoshan Iron and Steel Plant in Shanghai]

[26 Oct 85, p 1, Part I]

[Text] The Shanghai Baoshan Iron and Steel Plant is a familiar name. In the past, we only knew it from newspaper reports and people's discussions. It was not until recently, during the first 10 days of this month, that reporters from several Hong Kong newspapers and Hong Kong TV stations were invited to visit it and see with their own eyes its "true face."

It takes 2 hours to fly non-stop from Hong Kong to Shanghai. It then takes 2 more hours to drive from Shanghai's Hongqiao Airport to the Baoshan Iron and Steel Plant.

The Baoshan Iron and Steel Plant is Bigger than Kowloon

The Baoshan Iron and Steel Plant is really big. This is our first impression. We were told that the area of the Baoshan Iron and Steel Plant is 12 square kilometers. If we figure that Hong Kong's New Territories area starts to the north of Boundary Street, then we discover that the area comprising Kowloon is smaller than that of the Baoshan Iron and Steel Plant. The Baoshan Iron and Steel Plant is China's new iron and steel city situated at the mouth of the Chang Jiang. When blast furnace No 1 went into operation on 15 September, it marked the completion of the first phase of construction on the Baoshan Iron and Steel Plant. This followed 7 years of construction and the completion of 22 construction projects. One month before our arrival, blast furnace No 1 went into operation. The engineers and workers told us of their satisfaction over their first month of production.

However, from the construction to the production, the Baoshan Iron and Steel Plant experienced a lot of twists and turns. The construction work started at the end of 1978. After less than 2 years, at the end of 1980, the first phase of construction had to be slowed down and the second phase of construction had to be stopped. In the meantime, negotiations with foreign businessmen on returning imported equipment started. At that time, people began to talk about the project and have doubts about it, and the Baoshan Iron

and Steel Plant became the focus of people's attention. Owing to the problems at the Baoshan Iron and Steel Plant, people began to doubt China's construction of the four modernizations. They raised a series of questions such as, when the world's iron and steel industry was in a depression, why did China still want to build a new iron and steel plant? During our visit to the Baoshan Iron and Steel Plant, we also asked such questions.

The Average Per Capita Steel OutPut of the Whole Country is Only 0.04 Ton

Li Ming, deputy minister of the metallurgical industry and concurrently general director of the construction headquarters of the Baoshan Iron and Steel Plant, said that although last year China's iron and steel production output reached 43 million tons, which was fourth in the world after the Soviet Union, Japan, and the United States, China's average per capita steel output was only 0.04 ton. China's economic development requires more steel.

He also said that it took us 2 hours to come to the Baoshan Iron and Steel Plant from central Shanghai by car, but in Europe and America, it only takes half an hour because they have expressways.

Li Ming pointed out that the products of the iron and steel industry can mainly be used in three ways: 1 for the building industry, including the building of houses, buildings, and highways; 2 for the car manufacturing industry; and 3 for the ship-building industry. These three industries are now being vigorously developed by China, and thus China needs a great deal of steel.

If China needs steel, China can import steel. Why should China build its own iron and steel plant? It is a question of buying an egg or buying a hen to lay an egg.

Which method is better? He Linsheng, deputy director of the Baoshan Iron and Steel Plant, has his own view. He said that China's iron ore grade is low and iron resources are scattered. The biggest iron-rich mining area is in Anshan, but the iron ore mined 500-700 meters below the ground there is only 58 percent iron. Generally speaking, iron ore containing only 27 percent iron can be mined in China, but in Australia, an iron mine in which the iron ore contains 50 percent iron or less is considered a waste mine. At present, the iron ore bought by China contains an average of 65 percent iron.

The Baoshan Iron and Steel Plant imports iron ore from Australia, Brazil, and India, and also uses some iron ore from Hainan Island. He Linsheng said that the iron mines in Australia and Brazil are very good, almost like a gift from god. They are very rich and concentrated and easy to mine, and the cost of their iron ore is low. It will be a pity if China does not use their iron ore. Australia and Brazil usually transport their iron ore in big ships. One ship can carry 100,000 tons of iron ore. At present, it

is still extremely difficult to transport 100,000 tons of iron ore in China. If iron ore is transported by train, it would take 30-40 trains to transport 100,000 tons of iron ore. The railway transport situation in the country is still very serious. The Baoshan Iron and Steel Plant's start of production depends a lot on the transport of iron ore by sea.

Iron Ore is Cheaper than Steel

He Linshong point out that the reason why the Wuhan Iron and Steel Plant and the Baotou Iron and Steel Plant have not effectively carried out their production for a long time is that China lacks iron mines. The construction speed of the mines cannot match the production speed of the iron and steel plants of the country. What is more, China's iron mines are poor, so the iron ore mined by China has to be ground and then selected. For example, the Anshan Iron and Steel Plant uses one-third of its electric power to grind iron ore. After being ground, the iron ore cannot yet be used immediately; it has to be burned into man-made rich iron ore. Thus, the production period is very long. China has entrusted the task of constructing mines to foreigners, which means letting foreigners build mines and then having China smelt iron from iron ore.

Here we have a question: Can the supply of iron ore be guaranteed?

He Linsheng did not directly answer this question. He only said that because of the present world wide economic depression, the world has a surplus of iron ore. Last year, when the prices of various raw materials rose greatly, the price of iron ore dropped. Now the price of one ton of steel, but 1.5 tons of iron ore can produce 1 ton of steel. This means that importing steel will cost China six times more in foreign exchange than importing iron ore.

Last Year, China Imported 10 Million Tons of Steel

Last year, China imported around 10 million tons of steel. This year, China will not import any less steel than she did last year, so China will need a lot of foreign exchange to do this. As far as this situation is concerned, it is not difficult to understand the building of the Baoshan Iron and Steel Plant.

However, we should see that the economic results of the first phase projects of the Baoshan Iron and Steel Plant are not very satisfactory. The investment in the first phase projects is 12.8 billion yuan and the annual production output is 3.12 million tons of steel. Although the production output is high, most of the steel products are semi-finished products. The only finished product is the seamless steel tube, the annual production output of which is half a million tons of steel.

it is believed that the second phase projects of the Baoshan Iron and Steel Plant will create better economic results.

[27 Oct 85, p 1, Part II]

The construction of the second phase projects of the Baoshan Iron and Steel Plant had to stop in 1980, but the matter was not dropped. In 1982, the relevant department organized the country's experts to carry out an overall study and discussion on the second phase projects to see whether it was possible to continue construction on them. After learning a lesson from the construction of the first phase projects, which was carried out in a hurry, and after carrying out extensive research and discussions, China resumed talks with foreign businessmen on purchasing equipment for the second phase projects. In 1984, China began to reconstruct the second phase projects. For a time, the construction of the first phase projects and the construction of the second phase projects was carried out simultaneously.

During our visit, we saw that the steel scaffolding around the factory buildings in which the cold rolling mills and hot rolling mills will be installed had already been erected in a basic form.

The Second Phase Projects Can Save Foreign Exchange

"The Baoshan Iron and Steel Plant was not divided into the first phase and the second phase projects at the very beginning," said Zhang Yunxuan, deputy general design engineer at the construction headquarters of the Baoshan Iron and Steel Plant. In 1980, the state began to readjust the economy and found that the funds were insufficient, so the project was divided into two phases. As a result, the state decided to build the cold rolling and hot rolling plants, which require great investment, in the second phase, and to build the basic projects of the Baoshan Iron and Steel Plant, such as the power plant, water plant, raw materials dock, and so forth, in the first phase. The basic projects could not be divided in construction.

It seems that this is the major reason why the economic results of the first phase projects were not so good.

According to Huang Jingfa, general design engineer of the Baoshan Iron and Steel Plant, the investment in the second phase projects will not exceed 12.8 billion yuan, which is the amount of investment in the first phase projects, but the second phase projects will probably use one-third less foreign exchange than the first phase projects. For example, the first phase projects use \$3 billion, but the second phase projects will only use \$2 billion.

Why can the second phase projects save so much in foreign exchange? Huang Jingfa said that the construction of the first phase projects was carried out in a hurry. It began at the end of 1978 and it was expected that production would begin in 1982. Some equipment which China could produce by herself was imported from other countries at that time. Some 360,000 tons out of 410,000 tons of the equipment for the first phase projects was imported, so China spent a lot of foreign exchange which should not have been spent. This is the reason why people talked unfavorably about the construction of the first phase projects. In building the second phase

projects, China has learned a lesson from the construction of the first phase projects and implemented the policy of carrying out the design and manufacture of the projects through cooperation with foreign businessmen. Now China is importing 50 percent of the equipment and using 50 percent of the equipment produced on her own. China is also importing complete sets of technology and importing foreign equipment in order to produce such equipment on her own in the future. The second phase projects have a total of 300,000 tons of equipment, but only one-third of it is imported. Huang Jingfa stressed that China's present method of importation has entered the third stage: relying on herself and only importing technology, blueprints, and key component parts.

The Method of Importation Has Entered the Third Stage

The second phase projects consist of several key projects: the 2030 cold rolling plant, the 2050 hot rolling plant, the continuous steel-pouring plant, a blast furnace, a coke furnace, and others. The first three projects will be more than 50 percent of the total investment in the second phase projects.

The 2030 cold rolling plant will use the latest technology of the steel blocs of West Germany, the United States, and Japan. This technology has not yet been applied in West Germany, but is the most advanced technology in the world. The steel sheet produced by the cold rolling plant is 1.850 meters wide and 0.3-3.5 millimeters thick. The plant's annual production output is 2.15 million tons. This steel is the most suitable material for producing cars. Shanghai plans to build a new car factory whose annual production output will be 200,000-300,000 cars. The new car factory will be the biggest customer of the cold rolling plant.

The 2050 hot rolling plant will also use the equipment imported from West Germany and adopt the latest power-saving technology in the world. The hot rolling plant produces a kind of steel sheet which is 2.05 meters wide and 1.2 meters-25.4 millimeters (1 inch) thick, and its annual production output is 1.62 million tons.

The products of both the cold and hot rolling plants can be used for manufacturing household electrical appliances, cars, and ships, and can be used in the building industry and highway construction. China lacks these rolled steels at present, so China presently spends a lot of foreign exchange on importing these types of rolled steel. Therefore, when the second phase projects are mostly completed and go into production in 1990, the economic results of the Baoshan Iron and Steel Plant will be greatly increased.

The following figures can fully explain the question of economic results. In 1983, China imported more than 2 million tons of medium steel plate which cost \$53 billion. Last year, China imported more than 3 million tons of medium steel plate which cost \$7 billion. In 1983, China imported 3 million tons of steel sheet, and in 1984 China again imported over 2 million tons of steel sheet which cost \$9 billion. When the construction of the second phase projects is completed, China's import of the above steel plate and steel sheet will be reduced by 50 percent, and thus China will save a lot in foreign exchange.

West Germany is Willing to Transfer its Technology to China

Among the items imported by China for the construction of the second phase projects, there are many types of technology and equipment imported from Western Germany. This situation is quite different from that during the construction of the first phase projects. During the construction of the first phase projects, China mainly imported equipment from Japan. Zheng Yunxian said that the Western German businessmen and entrepreneurs are willing to provide technology to China without reservation. As for the traditional supplier of the Baoshan Iron and Steel Plant, in the words of General Director of Li Ming: "They are too conservative in technological transfer."

If the general technological level of the first phase projects of the Baoshan Iron and Steel Plant is said to be at the level of the end of the 1970's and the beginning of 1980's, then the technological level of the second phase projects of the Baoshan Iron and Steel Plant could be considered among the most advanced in the world. This will enable the Baoshan Iron and Steel Plant to become a modern iron and steel city equipped with the most advanced technologies.

Owing to the advanced production technology, the Baoshan Iron and Steel Plant now faces some problems. The backward administrative ideology and habits do not conform with the advanced production equipment. The leaders of the Baoshan Iron and Steel Plant have also noticed this problem.

Deputy Director He Linsheng said that in the past, their administration was divided into various levels, so it was difficult for them to communicate if a unit or a branch plant was in trouble. Although now they control all their branch plants with computers, the results from the computers still have to be handed in by human beings. What they need is a computer which can exercise overall control of the whole plant.

A central computerized administrative system has not been listed as one of the second phase development projects. Some of its component parts will probably be imported from foreign countries.

To dare to speak about the shortcomings and present problems means confidence. The workers of the Baoshan Iron and Steel Plant have full confidence in building the plant. They have overcome various difficulties. It is definitely true that a new iron and steel plant is now being built in Shanghai.

The various technologies imported by the Baoshan Iron and Steel Plant will be spared to other areas to push forward the technological transformation of other enterprises and raise the production level. This will have an enormous influence.

The Continental Reliance will be Turned into Coastal Reliance

What is more important and more significant is that the Baoshan Iron and Steel Plant is the first iron and steel plant to mainly depend on

water transport. It has cast away its long-standing continental reliance which, like plants in the Soviet Union, meant depending mainly on railway transport. The Wuhan Iron and Steel Plant is built along the Chang Jiang, but for over 20 years, it has not made good use of water transport. It was not until recently that the Wuhan Iron and Steel Plant began to build docks which could be used for loading and unloading the steel billets produced by the Baoshan Iron and Steel Plant. Our country's water transport has great potential, for it can reduce production costs. It is estimated that the Chang Jiang transport capability is equivalent to the transport capability of 14 railway lines. In the past, we did not make good use of the Chang Jiang and did not bring the Chang Jiang into full play.

The construction of the Baoshan Iron and Steel Plant marks the beginning of China's modern iron and steel industry. The plant has taken its own road. It is the milestone in China's transfer of its iron and steel industry from a continental reliance into a coastal reliance.

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HONG KONG MEDIA ON CHINA

BRIEFS

TIANJIN-TANGGU HIGHWAY OPENS--Tianjin, 1 October--The Tianjin-Tanggu harbor clearing highway, a highway with the highest architectural designing standard in China to date, was completed and opened to traffic today. This 18.6-km highway, which starts from the west at Junliangcheng in the eastern suburbs of Tianjin and terminates in the east at Tanggu on the shore of Bo Hai, is totally covered by high-grade asphalt mixed with concrete, providing fast and slow traffic lanes for traffic in both direction. Its completion and opening to traffic will accelerate the collection and distribution of goods and materials at the Tianjin harbor and raise the efficiency of clearing the harbor of cargo, thus playing an important role in easing the transport strain between Tianjin and Tanggu. [Text] [Hong Kong TA KUNG PAO in Chinese 2 Oct 85 p 2] 12662/12948

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